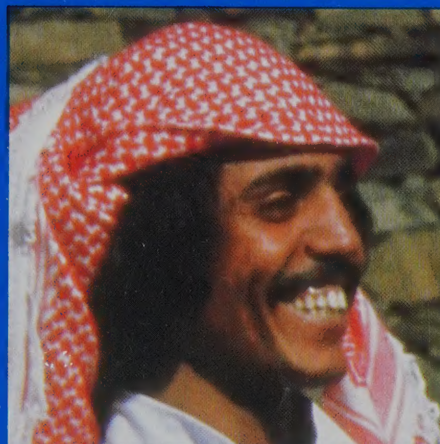
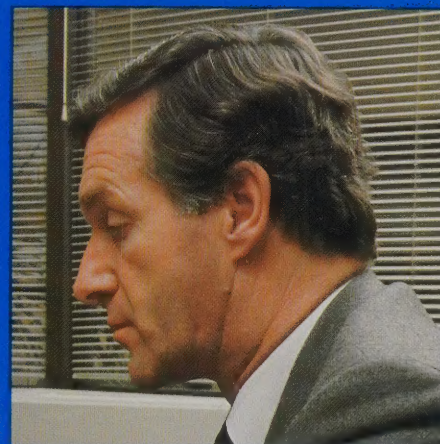
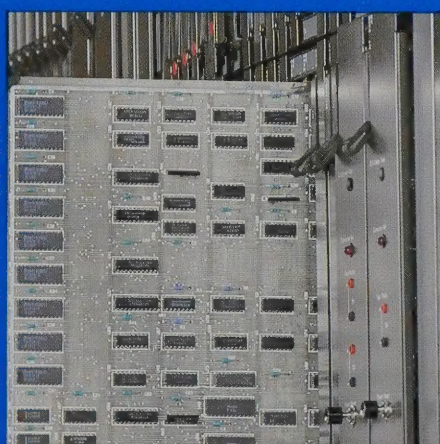
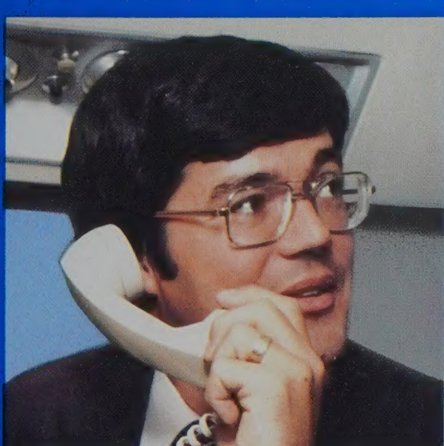
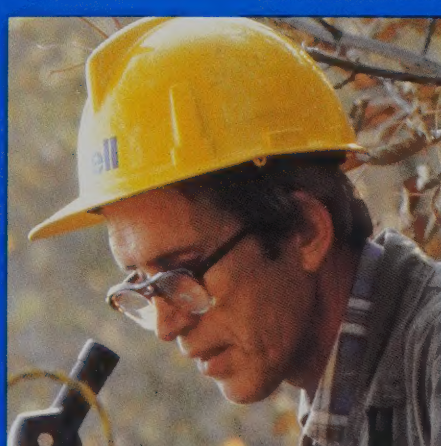
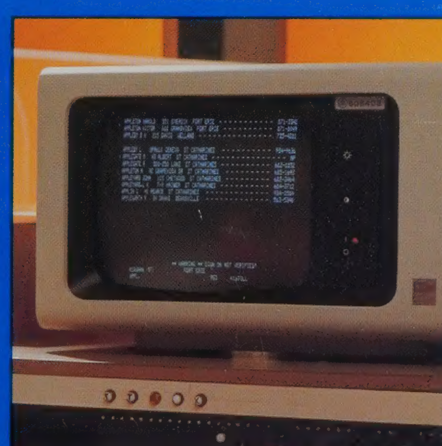
Bell Canada Annual Report 1981



Corporate Profile

Our company

Bell Canada is the largest supplier of telecommunications services and equipment in Canada. It provides telecommunications services and facilities to some 6,000,000 customers in the provinces of Ontario and Québec, and in the Northwest Territories. Bell Canada also has equity interests in telecommunications companies which serve the provinces of Newfoundland, New Brunswick and Nova Scotia.

Our telecommunications operations include the provision of voice, video, data, radio and television transmission, teletypewriter and other telecommunications services.

Our telecommunications equipment manufacturing activity, through a majority interest in Northern Telecom Limited – the largest manufacturer of telecommunications equipment in Canada – involves the design, manufacture and marketing of central office switching equipment, subscriber apparatus and business communications systems, transmission equipment and wire, cable and outside plant products.

We are also engaged in other business activities which include international contract operations, directory and printing operations, and research and development.

Our business

All around us, the pace of change is accelerating. In common with the rest of the telecommunications industry, we are in a period of transition.

We have always been a customer-oriented company and good service continues to be the key to our success. To serve our customers effectively in our rapidly changing environment and to meet the new challenges ahead, we are expanding our business beyond our traditional range of services.

Our aim is to maintain and strengthen our world leadership in telecommunications. As a public utility, we will continue to meet our obligation to provide high quality basic local and long distance service at reasonable cost. As an innovative supplier of competitive telecommunications, we intend to expand the range of our products and services and compete aggressively.

Our report

The following pages are testimony to the plans and activities, initiated or expanded in 1981, that will allow us to continue to serve our customers during this decade in a responsible manner.

The cover features the key elements of our business: some of our customers (top right), employees (bottom left) and products and services, all of which appear further in the report.

The *letter to shareholders* (page 2) reviews some of the significant events of the past year and identifies some major issues which we feel must be resolved if we are to achieve our objectives.

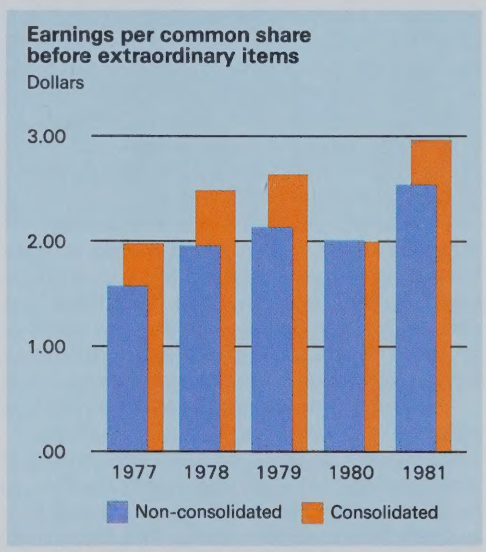
The *review of operations* (page 4) reports on events which brought about change, and on the way we responded, while the accompanying photographs illustrate some of the progress we made in 1981 towards improving service to our customers and planning for the future.

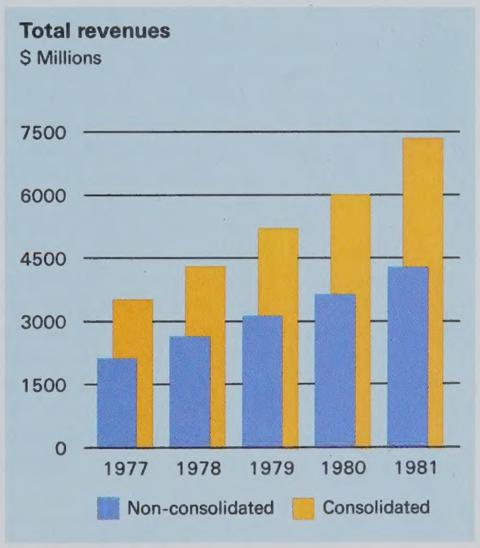
The *financial statements* (page 20), *management's discussion and analysis* (page 44), and *selected financial and other data* (page 51) express, in more specific terms, our results for this past year.

Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montréal, Québec
H2Z 1S4

Financial Highlights

All figures in Canadian dollars		Dollars in millions, except per share amounts		
		1981	1980	1979
Consolidated	Earnings per common share (before extraordinary items)	$ 2.97	$ 2.00	$ 2.64
	Total revenues	$7,389.9	$6,037.0	$5,264.7
	Income before extraordinary items	$ 550.7	$ 363.7	$ 433.2
	Net income	$ 559.4	$ 273.7	$ 433.2
Non-consolidated	Earnings per common share (before extraordinary item)	$ 2.54	$ 2.01	$ 2.13
	Total revenues	$4,338.3	$3,656.7	$3,136.9
	Income before extraordinary item	$ 476.0	$ 365.9	$ 355.8
	Net income	$ 476.0	$ 365.9	$ 385.6
	Rate of return on average common equity (before extraordinary item)	13.09%	10.64%	11.51%
	Capital expenditures	$1,401.5	$1,297.0	$1,116.7





1982 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 2:00 p.m., Tuesday, April 20, 1982 in the Commonwealth Ballroom of the Holiday Inn-City Centre Complex, London, Ontario.

Form 10-K
Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H2Z 1S4

Sur demande, le secrétaire de la compagnie vous fera volontiers parvenir un exemplaire français du rapport annuel.

Letter to Shareholders

1981 was a good year, operationally and financially. The contribution made by our dedicated employees to control costs and improve operational effectiveness, the much improved performance of Northern Telecom, and the rate adjustments authorized by the Canadian Radio-television and Telecommunications Commission (CRTC) in 1980 and 1981, have permitted Bell Canada to cope positively with adverse economic conditions.

Inflationary pressures and the current state of the economy indicate that even our current level of success falls somewhat short of the returns that will be required in the future to continue to provide quality service to our customers and a fair return to our investors.

Northern Telecom's results for 1981 represent a remarkable recovery from the previous year. The turnaround is largely the result of the success of Northern Telecom's digital switching systems, now profitable in all product lines in North America. Northern Telecom's revenues in 1981 increased 25.1 per cent to $2.6 billion, with profits totalling $136.7 million.

The CRTC granted a rate adjustment effective October 2, 1981 estimated to provide approximately $440 million in additional operating revenues in 1982. This rate award, combined with the one granted in 1980, made an important contribution towards our financial well-being.

However, the latest rate application was made in February, 1981. Since then, inflation increased at a faster rate than expected and interest rates went much higher, before receding to their current – but still fluctuating – levels. The effects of the volatile Canadian economy are being closely monitored with a view to ensuring that our financial position is maintained at a level that will enable us to meet our service obligations to customers and to attract the required equity and debt capital to finance our construction program.

The company raised some SFr 250 million (equivalent to Can $166.5 million) and US $150 million in financial markets in Switzerland and in the United States respectively in 1981. It is estimated that some $725 million in additional financing will be required in 1982.

Change was the principal theme of our annual report last year – change in our operating environment and in our response to new and unfamiliar demands. In 1981 there was a quickening in the pace of change. We were faced with a continuing need to review and revitalize our policies, product lines and operating procedures in order to ensure that our adaptation to change will be as successful in the future as it has been in the past.

The pages of this annual report present a detailed account of actions taken in 1981 to ensure that the needs and interests of Bell Canada customers, employees and shareholders alike are well served, now and in the years to come.

While 1981 saw some positive effects on Bell Canada, there remain several matters which need to be resolved in the very near future so that we may assume our proper role in this changing environment as a provider of local and long distance telecommunications services of high quality at reasonable prices, and as an aggressive competitor in the telecommunications marketplace.

During 1981 Bell Canada was actively engaged in regulatory hearings and in the presentation of numerous briefs.

Substantial changes in the Canadian telecommunications industry could follow the CRTC hearings into terminal attachment which took place in November and December.

Many important public issues were considered during these hearings, including the expected financial impact on the company, the need for technical connection standards, the restructuring of tariffs, the effect of customer-provided terminal attachment on employment in the Canadian telecommunications equipment industry and the basis upon which we will be permitted to compete.

The way in which these issues are decided will affect all telecommunications users, from those whose needs are met by basic telephone service, to those who require extensive wiring and sophisticated switching equipment and systems.

The Bell Canada-Northern Telecom relationship has been the focus of nearly five years of hearings before the Restrictive Trade Practices Commission. In the second phase of the hearings, completed in November, 1981 the Director of Investigation and Research, who had earlier recommended that Bell Canada divest

Chairman A. Jean de Grandpré (right) and President James C. Thackray discuss Dataroute testing procedures with Randy Givlin, CC Network and Customer Services, in Toronto.

itself of Northern Telecom, instead argued that it be required to purchase all goods and services through competitive bidding from Northern Telecom and other suppliers. With volumes of testimony now in the public record on the matter, the Commission's report is awaited.

It is our opinion that a very strong case has been made that Canada and the Canadian public have been, and continue to be, well served by the current structure of the Bell Canada group of companies, and that Northern Telecom's success in highly competitive world markets is in no small measure a result of this arrangement. In this proceeding, both the governments of Ontario and Québec supported the existing Bell Canada-Northern Telecom relationship.

As we enter 1982, there continues to be a considerable degree of uncertainty surrounding the future of many aspects of telecommunications in Canada. As in the past, there is little in the way of an overall policy framework to guide the industry and its regulators in the period ahead.

We intend, however, to persevere in our efforts to persuade and to assist the various levels of government in achieving solutions and developing policies which will enable our company to continue to provide high-quality, innovative telecommunications services and facilities to the Canadian public. By so doing we are confident that our company will remain an organization in which our shareholders, employees and customers will take great pride.

Bell Canada is one of this country's most prominent and publicly visible corporations, especially in the provinces of Ontario and Québec, in which most of our telecommunications operations are concentrated.

It goes without saying that an organization such as ours is only as good as the people it employs.

Bell Canada derives great strength from its 59,000 employees, not only in their achievements at work, but also from the multitude of ways in which they, and their colleague pensioners, individually and through their membership in the Telephone Pioneers of America, serve the communities in which they live.

The contributions which are made voluntarily by so many of these people donating their time, talents and resources to meeting community needs are an inspiration to others, and provide us all with confidence that such a company of men and women will keep Bell Canada strong and vigorous in the challenging years ahead.

A. J. de Grandpré
Chairman of the Board

J. C. Thackray
President

February 24, 1982

Review of Operations

Financial results

Consolidated earnings improved from those recorded in 1980. For the ninth consecutive year, the common stock dividend was increased — to an indicated annual rate of $1.96 in 1982.

The steady improvement in Northern Telecom's earnings during 1981 and the success of our international activities made an encouraging contribution in the context of continuing high inflation and spiralling interest rates. Consolidated earnings improved markedly from those recorded in 1980, but should be compared to those of 1979 to have a better perspective, in view of the effects of Northern Telecom's substantial decline in earnings in 1980.

Consolidated income, before extraordinary item, in 1981 was $550.7 million, or $2.97 per common share, compared with $363.7 million, or $2.00 per share, in 1980, and $433.2 million, or $2.64 per share, in 1979. After reflecting an extraordinary gain of $8.7 million resulting from the sale by Northern Telecom Limited of its shares of Intersil, Inc., net income was $559.4 million or $3.02 per common share.

The non-consolidated rate of return on average common equity for 1981 was 13.09 per cent compared with 10.64 per cent, a year earlier.

The rate of return on average common equity calculated for regulatory purposes was 13.67 per cent for 1981.

On January 15, 1982 a quarterly common share dividend of $0.49 per common share – $0.04 higher than the dividend for the previous quarter – was paid. This is the ninth consecutive year that the dividend rate has been raised, giving what we believe to be a reasonable level of dividend income in this period of high inflation. The current indicated annual dividend rate is $1.96.

Telecommunications operating revenues rose 19.9 per cent in 1981, mostly as a result of some $235 million generated by the full-year effects of the August, 1980 rate award and $109 million in additional revenues derived following the September, 1981 rate award, which became effective October 2. Growth in demand for most telecommunications services was modest in 1981.

Telecommunications operating expenses in 1981 increased by 17.8 per cent as a result of employee-related expenses due principally to higher wages; higher prices paid for materials and supplies; and depreciation.

Financing

Debt issues of US $150 million and SFr 250 million were raised in the United States and Switzerland. Participation in the Shareholder Dividend Reinvestment and Stock Purchase Plan and Optional Stock Dividend Program produced $95.6 million in new equity.

During the 1970s steps were taken to ensure that Bell Canada was in a position to raise capital in international markets. In 1981, difficult market conditions in Canada led to debt issues in the United States and Switzerland. In June, US $150 million, 14.5 per cent, ten-year debentures priced at 99.50 were sold in the United States. In November, a private placement in Switzerland of an issue of Series 1 notes provided SFr 150 million (equivalent to Can $99.9 million) and a public offering, also in Switzerland, of Series 2 debentures totalled SFr 100 million (equivalent to Can $66.6 million). The six-year notes were issued with an annual coupon of 8.125 per cent, while the twelve-year debentures offered an annual coupon of 7.25 per cent.

Participation in the Shareholder Dividend Reinvestment and Stock Purchase Plan continued at a satisfactory level in 1981, producing some $86.9 million in new equity. Some 63,000 common shareholders, representing approximately 24 per cent of the total and 19.1 per cent of common shares outstanding, were enrolled in the plan as of January 18, 1982. Under this plan, dividends on Bell Canada common shares are reinvested in additional common shares at a five per cent discount from the average market price (as defined in the plan) and optional cash payments can be made to a maximum of $3,000 per quarter at 100 per cent of market price.

Participation in the Optional Stock Dividend Program, introduced in July, 1980 and which became effective with the quarterly common dividend paid in October, 1980 has also increased, producing some $8.7 million in new equity in 1981. Some 5,400 common shareholders were enrolled in the plan, as of January 15, 1982. Under this program, holders of Bell Canada common shares receive dividends in the form of additional common shares having a market value substantially equivalent to the corresponding cash dividend.

Service is the foundation of our business. Good service means quality telecommunications at reasonable cost, through a well-organized and effective operation.

A new computer operating system called UNIX, designed to improve and simplify test centre operations, became a main part of the centralized automated loop reporting system (CALRS) in 1981. Pierre Charbonneau, Test Centre, monitors the system in Chomedey, one of nine test centres converted to UNIX in 1981.

Conversion to a new, automated directory assistance system (MDAR) proceeded in Montréal and Toronto. Suzanne Stewart, Operator Services, can now provide improved service to Toronto customers by effectively combining her knowledge of the directory with the speed and accuracy of computer services.

The $29 million Bell Talbot Square in London is the company's newest administrative centre and headquarters of its expanding work force serving Southwestern Ontario. Ray Mantle (right), Real Estate, looks at some plans with Harold Eldridge, from London's City Engineer's Department.

About a billion dollars was spent over a five-year period to complete the non-urban service improvement program (NUSI), designed to extend and improve telecommunications services in rural areas. Fernand Charbonneau (left) and Jean Lord, Construction, work on a cable installation in St-Alexandre.

Expansion of the traffic operator position system (TOPS) program, which provides for faster, more economical handling of customer-dialed long distance calls requiring operator assistance, continued at a steady pace in 1981. In Cornwall, the old and the new systems are temporarily working side by side.

Capital expenditures

Bell Canada's capital expenditures in 1981 totalled $1,401.5 million, including $954.9 million to service existing and new customers, $182.7 million to improve and modernize existing plant and services and $263.9 million for support activities and replacement of plant. Expected capital expenditures in 1982 will be approximately $1,625 million.

Bell Canada's capital expenditures increased by $104.5 million to $1,401.5 million in 1981, compared with $1,297.0 million a year earlier. In terms of constant 1971 dollars, the level of construction expenditures has remained relatively unchanged since 1974, and actually went down in 1981, considering that inflation in itself accounted for an increase of $134.6 million.

About 69 per cent of capital spending in 1981 was required to meet requests for a wide variety of telecommunications services, including the relocation of telephones for customers who moved during the year.

Projects, including a portion of the non-urban service improvement program (NUSI) and switching and operator switchboard modernization, accounted for some 13 per cent of capital expenditures.

Expansion of the Phonecentre™/Téléboutique™ program was deferred in 1981, pending the final outcome of the terminal attachment hearings.

Approximately 13 per cent of capital expenditures was allocated to support activities, including corporate needs for furniture and office equipment, computers, tools, motor vehicles and other work equipment, as well as administrative premises.

New regional headquarter buildings are currently under construction in Montréal and Toronto. The Talbot Square building in London, headquarters for almost 1,000 employees of Ontario Region Network Services, opened officially in September. Compared to the rising cost of renting office space in larger cities, it is more economical for Bell Canada to own its buildings. In fact, as soon as employees moved into the Talbot Square building, the company made a saving of more than 10 per cent over the cost of renting similar facilities.

The balance of capital spending was used mainly for the replacement of plant that was worn out, damaged or had to be moved because it interfered with construction activities of outside parties.

Bell Canada anticipates capital expenditures of approximately $1,625 million in 1982, an increase of some $223.5 million from 1981. Inflation alone is expected to add $136 million to the 1982 program.

Modernization

Good service means, among other things, the continuing search for better ways of doing things. Customers throughout our serving area benefitted from improved efficiency in operator services, repair, the processing of accounts and switching equipment. The $1 billion non-urban service improvement program was completed.

Acronyms such as DMS™, MDAR™, CUBIS and NUSI may sound somewhat like gibberish, but the programs or products they describe constitute an enormous investment in time and effort, and millions of dollars spent to maintain high standards of service, contain cost and ensure a telecommunications network which is efficient and ready to meet the growing needs of our customers.

The first Digital Multiplex System Remote Line Module (DMS-RLM) to be used in Bell Canada territory was installed at Stoney Creek in April. The RLM is a type of enhancement to the DMS-100, one of a family of digital switching machines which Bell Canada is installing throughout Ontario and Québec. These digital switches combine software and microelectronics to not only provide all the features necessary for telephone service, but also add new services not possible with traditional switching machines. The RLM permits extension of this technology into suburban and outlying areas at a much faster pace and at less cost than building new central offices. Other locations for RLM unit installation in 1981 were London, Toronto and Sherbrooke.

Modernization (continued)

After acquiring the Muskoka and Parry Sound Telephone Co. in 1979, Bell Canada completed, in September, the $7.5 million task of bringing up to Bell standards the 2,000 km² operating territory. Bill Best (right), Installation and Repair, explains to Kearney Mayor Harold Shaw how the change will affect service to the municipal offices.

Bell Canada continued installation of other types of DMS switches. During 1981, a total of seventeen DMS-100 local switches, each with a capacity of 100,000 lines, went into service. By the end of the year, there were also nineteen (8,000-line) DMS-10 and twenty-five (500-line) DMS-10 SDO (Small Dial Office) switches in service throughout the territory. The smaller DMS-10 SDO, used in remote areas of the operating territory, is capable of being linked directly to a satellite ground station.

Bell Canada also installed a DMS-100/200 combination local/toll switch at Kingston and a DMS-200 toll switch at Trois-Rivières.

Installation of the new, automated, directory assistance system known as MDAR (mechanized directory assistance records) proceeded on schedule in Québec and Ontario. The MDAR system permits operators to find telephone numbers by computer search, rather than by leafing through large printed telephone books. Each operator works with a keyboard and a visual display screen connected to a mini-computer.

Expansion of the traffic operator position system (TOPS™) program, which provides for faster, more economical handling of customer-dialed long distance calls requiring operator assistance, continued during 1981. About 500,000 main telephones in each of Ontario and Québec were converted to TOPS. More than 70 per cent of Bell Canada customers are now served by this system. Over the next few years, the company hopes to have TOPS in operation throughout its territory.

During 1981 a significant number of Bell Canada's residence and small business customer accounts were converted from a semi-mechanized to a new data-based billing and information system (CUBIS). The conversion of accounts for this category of customers will be completed by mid-1982 with the implementation of the system for Montréal and Toronto metropolitan area customers.

The switch to this modern billing concept, utilizing the latest computer technology, represents the first of a two-phase plan which, when fully implemented, will provide Bell Canada with a responsive and flexible billing system for all its customers.

A new computer operating system called UNIX was introduced during 1981 and became a main part of the centralized automated loop reporting system (CALRS™). UNIX accelerates the CALRS process – a new concept in repair service bureau operations introduced in 1976, mechanizing all testing and reporting operations through the use of mini-computers. After a successful pilot project in Hamilton in 1980, six CALRS test centres in Ontario Region and three in Québec Region were equipped with UNIX by the end of 1981.

Some $158 million was spent in 1981 to complete the non-urban service improvement program (NUSI), designed to extend and improve telecommunications services in rural areas. The cost of NUSI totals about a billion dollars over a five-year period. The program is unprofitable and requires very heavy cross-subsidization from other services, mostly in urban areas.

Bell Canada is introducing fibre optics transmission systems into the network, on a selected and economic basis. One of these systems, between Sainte-Agathe and Sainte-Adèle, went into service in May, 1981. Other standard systems were added to the network in several locations in Québec and Ontario.

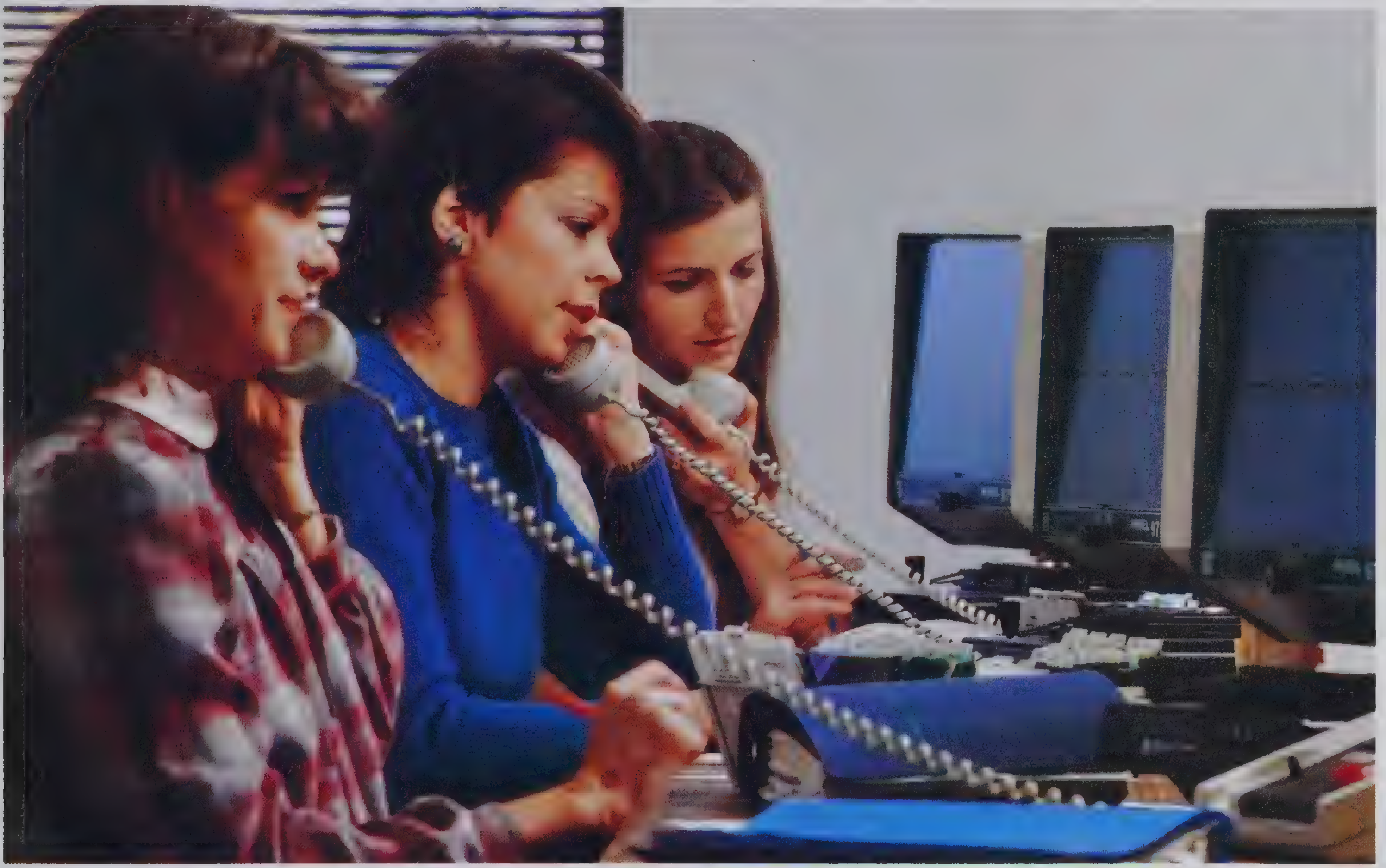
Bell Canada is engaged in a research program that will lead to an economical introduction, by the mid 1980s, of a fibre optics system for a full range of integrated services in the customer distribution network.

New products and services

Several new products and services were tested — some for competitive markets — or introduced in 1981. These included: the Displayphone™, an SL-1 add-on module, Vista™, a security and alarm signal transmission service, an air/ground radio telephone service and remote call forwarding.

Extending and improving service also means making full use of innovative technology and imaginative marketing.

In response to our changing environment, several new products and services were introduced during the year, providing subscribers with an increasing choice of equipment to meet their needs.



The switch from a semi-mechanized to a new data-based billing and information system (CUBIS) enables (left to right) Nancy Douville, Micheline Nadeau and Mary Sergent, Customer Services, to provide faster and more responsive service to Sherbrooke customers.

Bell Canada sponsored a survey among public telephone users in Montréal and Toronto to test their reaction to four new outside pay phone models. Nicole Murray takes notes on behalf of an independent survey group as Réal Bluteau, a customer, tries out a cabin. Walter Pearce, Market Planning, verifies some of the results.

Bell Canada's greatest physical asset is its network. Improved technology and expansion of the network's usefulness are essential if we are to continue to respond to the telecommunications needs of our customers for the years ahead.

The Displayphone, a new business telephone designed by Bell-Northern Research (BNR), was part of a controlled market trial which started in April, 1981. Erb Monaco (left), Computer Communications Planning, explains some of the features to Steve O'Farrell, from Texaco Canada in Don Mills.

Designed primarily for business aircraft, the air/ground radio telephone service permits the aircraft radio telephone unit to operate much the same as a normal telephone. Tom Charron, Business Development, explains to Cindy Lynch, from Execaire in Dorval, how the system functions.

One of Bell Canada's newest integrated voice and data switching services was part of a field trial conducted at BNR, in Nuns' Island. Ron Cumin (right), Business Development, discusses one of the functions of an SL-1 add-on module with BNR's George Mony (left) and Bruce Townsend (sitting), from the Université du Québec.

New products and services (continued)

A new business telephone designed by Bell-Northern Research, the Displayphone, was unveiled in February, 1981. Displayphone is an advanced ‹‹intelligent›› telephone terminal that permits both data and voice communications to be handled in one desk-top unit. Designed for the business market, it integrates voice communication, using a handset and touch-pad, with the use of a keyboard, to access information from data banks. It performs a variety of functions that normally require the use of several different devices. Some 200 Displayphones are being used in a controlled market trial which started in April, 1981 in several Ontario and Québec cities. Displayphone is to be introduced into the business marketplace in 1982.

Bell Canada also tested a second integrated voice and data switching service in 1981 – an enhancement or add-on module to the SL-1™ Digital PBX which, when attached to the SL-1 telephone set, shares the installed wiring to permit simultaneous voice and data communications. SL-1 features such as ‹‹ring again›› and ‹‹speed call›› can be used for placing data calls. The SL-1 with integrated voice and data service is planned to be introduced in the business marketplace in late 1982.

Canada's largest field trial of videotex service, sponsored jointly with the federal Department of Communications (DOC), started in May, 1981. Bell Canada is operating the trial, under the name Vista, using the Telidon technology developed by DOC engineers. During the trial, participants in the Toronto and Québec City areas, both in residences and selected public locations, are able to call up a wide variety of information, delivered by means of Bell Canada's existing telephone network, for display on home television screens. Trial participants are not charged for their use of the system. Bell Canada's role in the test is that of a carrier, as content is supplied by private and public information providers. The trial continues through 1982.

A two-phase trial designed to test a new technology for delivering voice and data services to residences and small businesses started in July, 1981. The new technology, developed by Bell-Northern Research, permits the simultaneous and independent transmission of voice and low-speed data signals over existing subscriber telephone lines. First to be trialed is a security alarm carriage service.

A technical trial was held in 1981 to test and evaluate equipment. The second phase, a market trial, involves a number of major alarm companies providing service to 600 subscribers in Montréal and Toronto and began in early 1982. If the trial is successful, Bell Canada anticipates that the service will be available in 1983.

Air/ground radio telephone service, a new Bell Canada offering, began in May, 1981 from bases at Toronto and Thunder Bay. Three other locations – Montréal, Québec City and Sault Ste. Marie – were added in August. Designed for use in business aircraft, it permits the aircraft radio telephone unit to operate much the same as a normal telephone without the need for push-to-talk and release-to-listen.

Bell Canada introduced remote call forwarding (RCF) in October, 1981 as an additional offering to its range of inter-city voice services. The new service allows a business customer to lease a local telephone number in a distant exchange and to receive client calls on a reverse charge basis.

Initially, RCF numbers are available from Toronto, Ottawa, Montréal and Québec City. With the increased availability, during 1982 and 1983, of the DMS-100, the new service will be expanded with numbers available from 11 additional cities in Ontario and Québec.

Other competitive activities

The Computer Communications Group™ (CCG) continues to expand its data communications services. Bell Communications Systems Inc. (BCSI) is engaged successfully in the sale, installation and maintenance of interconnect telephone systems, while intelTerm Systems Limited ceased operations.

Over the past twenty years, technological change in the telecommunications industry has been revolutionary. Telecommunications technology, from silicon chips to fibre optics, has paved the way for many new services – everything from electronic funds transfer and electronic newspapers to information services such as electronic mail, communicating word processors and teletext.

Other competitive activities (continued)

Bell Canada's future earnings are going to depend on its ability to be not only a good service company, but also an effective marketing organization, aggressively meeting the challenges of the new competitive realities.

The Phonecentre/Téléboutique is a one-stop combined business office, sales and service centre. At Billings Bridge in Ottawa, Stephanie Gregory, Customer Services, helps Shirley Allen select telephone sets from among a range of styles on display for rent or purchase.

The progress of that revolution has been in evidence in the past year in CCG, the data communications arm of the TransCanada Telephone System (TCTS).

In November, 1981 CCG was granted interim approval by the CRTC of tariffs for a new public store-and-forward messaging service called Envoy 100™. Envoy 100 is the first offering in a family of competitive message services CCG intends to introduce to the Canadian business community throughout the 1980s.

CCG is introducing an intelligent network concept to provide gateways for computerized information of all types. Called iNet™, it will provide executives, managers and business professionals with universal access to information providers and other computer-based services. Through the iNet gateway, business users will have a single point of access to the intelligent network to satisfy their business information needs. A field trial of this concept in the Canadian marketplace is planned for 1982.

In March, 1981 CCG began a six-month field trial of fibre optics for the transmission of high-speed commercial data in Bell Canada territory. Statistics are now being compiled, but the results already indicate that fibre optics will be a viable means of transmitting data.

In June, plans were announced for a national satellite business network which will be available early in 1983 to combine voice, video and data communications across Canada, to the United States, as well as overseas via Teleglobe Canada. This network is based on a technology called time division multiple access (TDMA), which allows voice, data and video signals to be converted into an integrated digital bit stream and transmitted via satellite to a network of earth stations. CCG is assessing the technology, following a six-month market technology trial with the Bank of Nova Scotia, which began in June, 1981.

At the recent Canadian Computer Show in Toronto, CCG introduced a new circuit-switched digital data communications service called Datalink™. This digital service completes CCG's integrated portfolio of digital network services for Canadian computer users, joining Dataroute™, the nationwide digital transmission network, and the Datapac™ family of packet-switched network access services. Datalink is oriented primarily to those low-to-medium volume users who need to access a host computer, and transmit data into a centralized processing unit.

Throughout 1981, CCG's Dataroute and Datapac networks continued to expand to meet growing customer demands. Sixteen additional Canadian cities were added to the Dataroute network, bringing the total number of Dataroute serving areas to 63. In November, CCG and the Long Lines (long distance) division of American Telephone and Telegraph (AT&T) announced plans to link Dataroute with its counterpart system in the United States, the DATAPHONE™ Digital Service, by mid-1982.

CCG's Datapac network also grew in 1981. The CRTC approved rates for a new access service called Datapac 3305. In September, CCG announced the development of an enhancement to its Datapac access software package.

The newest company in the Bell Canada group, BCSI, started its operations in January, 1981 as a subsidiary of Tele-Direct Ltd. BCSI is a full-service marketing organization. It is engaged successfully in the sale, installation and maintenance of some of the most modern interconnect telephone systems for the business community in the provinces of Ontario and Québec. It has offices in Toronto, Montréal, Ottawa and London.

intelTerm Systems Limited, established in March, 1980 as a subsidiary of Tele-Direct Ltd. to sell small business computers and word processing equipment, ceased business operations in late 1981. Due to the inability of some of its major suppliers to bring satisfactory products to the marketplace in timely fashion, intelTerm, in which five other major Canadian telephone companies held a minority interest, had not been able to meet its sales and financial objectives.

Outright sale of telephone sets in Phonecentres/Téléboutiques, which began in October, 1980 achieved satisfactory results in 1981.

Sixteen more Canadian cities were added to The Computer Communications Group's Dataroute network in 1981. In Brockville, Microtel is one of the companies that has taken advantage of the expanded digital transmission network. Brian Kelahear (right), CC Sales, goes over some of the specifications with Bill Connell, from Microtel.

Bell Canada is operating Canada's largest field trial of videotex service. One of the trial locations is the Toronto downtown Simpson's store. Claudette Bertrand, Business Development, explains various uses of the Vista terminal to John Watson, from Simpson's. Larry Brecker, a customer, tries out the system.

Like other businesses, Bell Canada advertises in order to promote its services and increase revenues. Francine Giguère, Advertising, monitors a series of television commercials on long distance service.

Terminal attachment

Bell Canada's witnesses at the CRTC public hearing stressed that the long-term interests of both the public and the company would best be served by a decision which took into account the many important public issues involved. The hearing ended in December, 1981 and we are now awaiting a decision.

The CRTC hearing into terminal attachment in November and December, 1981 was the direct result of a Bell Canada initiative. The company, in November, 1979 requested that the Commission look into the implications of liberalizing the rules for connecting customer-owned terminal equipment to the company's facilities in order to determine whether it would be in the public interest to permit terminal attachment. The Commission decided to extend the scope of the hearing to include other federally-regulated carriers, namely British Columbia Telephone Company, CNCP Telecommunications, NorthwesTel and Terra Nova Telecommunications.

Bell Canada's witnesses at the hearing dealt with a number of important questions. They stressed that the long-term interests of both the public and the company will be best served by a final decision which carefully takes into account a number of considerations, ranging all the way from the need for technical connection standards to the restructuring of tariffs, the sale of equipment, and the impact of terminal attachment on the Canadian telecommunications manufacturing sector.

In the company's opinion the advantages of liberalized terminal connection for some customers are direct and immediate, while many of the potential disadvantages are indirect and not immediately apparent.

Bell Canada believes that it is important that customers understand that in choosing to provide their own terminal equipment, they would be assuming many responsibilities which traditionally were undertaken by Bell Canada in the day-to-day provision of service.

Rate application

New rates which became effective October 2, 1981 will provide approximately $440 million in additional operating revenues in 1982. The CRTC established a permissible rate of return between 14.25 and 14.75 per cent.

In a decision rendered on September 28, 1981 the CRTC awarded Bell Canada rate increases of 12 per cent for residence and 15 per cent for business primary service. The new rates, including an average 19 per cent increase in the cost of long distance calls and five cents more for calls from public telephones, became effective October 2 and are estimated to provide approximately $440 million in additional operating revenues in 1982.

The Commission concluded that an appropriate rate of return on average common equity should be 14.5 per cent for regulatory purposes with a permissible range between 14.25 and 14.75 per cent. In its application the company had requested an allowable range between 14.50 and 15 per cent.

The CRTC decided that, for regulatory purposes, Tele-Direct (Publications) Inc. will continue to be treated as an integral part of the company and that its net income shall be included in the company's income. Furthermore, the Commission ruled that effective January 1, 1982 the required rate of return on Bell Canada's average common equity investment in all other subsidiaries and associated companies will be deemed to be 15.5 per cent on an after-tax basis. Under the CRTC's previous decision, the corresponding rate of return was 15 per cent on Bell Canada's investment in Northern Telecom only.

We believe that such a treatment is unique in the history of regulation and is against the long-term interests of the subscribers and shareholders alike. We are assiduously exploring means to correct the consequences of this aspect of the decision.

Vertical integration

The public hearings before the Restrictive Trade Practices Commission (RTPC) on the relationship between Bell Canada, Northern Telecom and Bell-Northern Research concluded in November. The final report of the Commission is expected to be issued in 1982.

The protracted inquiry into the manufacture, production, distribution, purchase, supply and sale of telecommunications equipment and related products in the country, and the integrated structure of Bell Canada and Northern Telecom, should come to an end some time in 1982.

At the instigation of the Director of Investigation and Research appointed under the Combines act, the RTPC has been examining the vertical integration of the two companies since June, 1977.

Presentation of the Bell Canada-Northern Telecom case began in January, 1980. Witnesses included officers of Bell Canada, Northern Telecom and Bell-Northern Research.

Bell Canada's 400-page final argument, filed July 17, 1981 illustrated the many ways in which the present relationship between Bell Canada, Northern Telecom and Bell-Northern Research serves the public interest, and how this vertical integration has contributed to the establishment of a high technology base in Canada, the development of significant export volume and the creation of many thousands of jobs for Canadians.

The Director of Investigation and Research had initially recommended that Bell Canada be required to divest itself of its ownership in Northern Telecom to spur competition in the telecommunications industry. In his written submission filed July 20, the Director instead argued, as the preferred alternative, that Bell Canada should be required to do all its purchasing of goods and services by competitive bidding, rather than dealing with Northern Telecom as a preferred supplier.

Bell Canada feels that this policy, if adopted, would damage the basis for the international success the Bell Canada Group has achieved and that it is time the Group be recognized as a remarkable Canadian asset which should be commended for its efforts and success in establishing a credible Canadian presence in international markets, in the high technology field.

The governments of Ontario and Québec have supported the existing integrated relationship between Bell Canada and Northern Telecom. Ontario urged the RTPC to tell the world and Canada once and for all that we have a successful structure with which we should not interfere, while Québec stressed the importance of the investment in manufacturing facilities and employment created by the Bell Canada-Northern Telecom relationship to the province's economic development.

The presentation of oral argument was completed on November 10, 1981. The Commission's final report, dealing with the issues of vertical integration and equipment procurement, is expected to be issued later in 1982.

Testing and actual installation of fibre optics continued in 1981. Fred Black (right), Construction and Ed Emerson feed a fibre optic cable into a duct leading to Datacrown Inc. which, with Canada Systems Group, participated in a six-month trial of high-speed commercial data transmission in Toronto.

Microwave towers constitute a major element of our telecommunications network. The Rigaud repeater station, linking the Mount Royal and Maxville towers, was equipped with new horn reflector antennas in 1981.

International contract operations

The first four years of Bell Canada's management contract in Saudi Arabia have produced an enviable record of achievement. Bell Canada International Management Research and Consulting Ltd. (BCI) is involved in 41 projects in 18 countries and in the training, in Canada, of telecommunications administrators from many other countries.

During 1981, international operations continued to contribute substantially to consolidated earnings. There was productive activity in many countries.

The fifth year of Bell Canada's five-year management contract with the Saudi Arabian Ministry of Post, Telegraph and Telephone began in mid-December, 1981. The first four years have produced an enviable record of achievement.

Since December, 1977 when contracts to implement the Telephone Expansion Program were awarded to Bell Canada, Philips of the Netherlands and L.M. Ericsson of Sweden, the Saudi Arabian national telephone system has grown at a rate faster than any other in the world, and the quality of service has improved dramatically.

Over the last four years, the number of working telephone lines increased to more than 550,000 from 126,000; switching capacity expanded to more than 860,000 lines, from fewer than 200,000; the volume of international calls rose to more than 1.5 million per month, from fewer than 200,000 and 85 per cent of them were customer-dialed. Nearly 1,900 coin telephones were placed in service where almost none had existed four years earlier.

In fulfilling its contract to operate and manage the telephone system and train Saudi Telephone employees, Bell Canada has successfully integrated all network sub-systems. Bell Canada management has also co-ordinated various functional groups of employees, recruited from other countries and cultures, so that they operate as a single objective-oriented team. At year-end, there were about 650 Bell Canada managers in Saudi Arabia. Thousands of Saudi Telephone employees have received nearly a million student-hours of instruction in Saudi Arabia during the first four years of the contract.

It is hoped that it will be possible to negotiate an extension to the present contract for a further five years, although there is no assurance that this will be achieved.

Jean Weil-Brenner, a Bell Canada adviser in Abha, Saudi Arabia, and Samir Al Motairy, Cable Repair, Saudi Telephone, inspect aerial cable which will eventually be replaced by underground facilities.

International contract operations (continued)

BCI, a wholly owned subsidiary of Bell Canada, provided several hundred staff-weeks of training for representatives of telecommunications and electronics administrations from various parts of the world, including Brazil, Iraq, Japan, Korea, Saudi Arabia, Sweden, Trinidad and Turkey.

In 1981, BCI was involved in 41 projects in 18 countries around the world. In the United States, teams of specialists continued as consultants to the Satellite Business System organization in the planning and design of a network for the interconnection of earth stations with telephone facilities. Other BCI specialists provided operational support for Northern Telecom in the establishment of a number of packet-switched networks for the U.S. Federal Reserve Bank.

In Africa, BCI continued to manage, on behalf of the Canadian International Development Agency, a project to establish a microwave network serving five nations – Senegal, Mali, Upper Volta, Niger and Benin.

In Iraq, several projects, most involving the installation and maintenance of electronic switching systems, progressed during the year, and on-the-job training was provided for Iraqi personnel.

Under a standing agreement with the Trinidad and Tobago Telephone Company, BCI provided technical managerial assistance, expertise in training and methods, an operations review of repair services, and assistance with customer services.

In European countries, such as Switzerland and Germany, consultants from Canada were advising and assisting with the establishment of SL-10 packet switching systems. Others provided operations support where new digital switching systems were installed. BCI also provided consulting services for the North American Air Defence Command and for Canada's Department of National Defence.

TransCanada Telephone System (TCTS)

The CRTC has ordered Bell Canada and other federally-regulated TCTS members to seek to renegotiate certain aspects of the current agreement governing long distance service revenue settlement. The company feels the CRTC decision will inhibit the development of TCTS, to the detriment of all Canadians.

Established in 1931, TCTS has become a consortium of ten telecommunications companies working together to plan, develop and operate the Canadian long distance telecommunications network and coordinate long distance service revenue settlement among members.

Following a 1979 consultant's study on TCTS settlement procedures and a public hearing in 1980 on TCTS practices and procedures, the CRTC ordered the federally-regulated TCTS members (including Bell Canada) to seek to renegotiate with the other members of TCTS certain conditions of the current agreement governing the settlement, apportionment and distribution of revenues from specific trans-Canada services.

The company is concerned that the order could potentially affect the orderly planning of TCTS. More importantly, it could seriously affect Bell Canada's ability to market telecommunications services on a national basis. This would inhibit the ability of the members of TCTS to continue to jointly develop and introduce new and innovative services which benefit all Canadians.

Labour relations

New two-year collective agreements, covering clerical and associated employees and communications sales employees, have been signed. Agreement in principle has been reached for operator services, dining service, and craft and services employees.

At year-end Bell Canada had some 59,000 employees. Most of the approximately 42,000 non-management personnel were represented by two unions, the Canadian Telephone Employees' Association (CTEA) and the Communications Workers of Canada (CWC).

Labour relations (continued)

New collective agreements of two years' duration, covering 18,500 clerical and associated employees and some 600 communications sales employees, were signed by the CTEA and the company on December 17, 1981, and February 23, 1982, respectively.

Agreement in principle on two three-year contracts has been reached on February 14, 1982 with the CWC representing some 6,900 operator services and dining service employees and 15,800 craft and services employees. It is expected these contracts will be signed in March, 1982.

International Year of Disabled Persons

A wide range of new discount telephone rates for the disabled was introduced in July, 1981. Customers with special individual needs can visit or call Telecommunications centres for special needs in Montréal and Toronto.

It is a tradition for Bell Canada to continually seek better ways to meet the requirements of people with special communications problems and needs. While considerable progress was achieved during 1980, our centennial year, in addressing the needs of the handicapped members of our society, Bell Canada continued, throughout 1981 – designated by the United Nations as the International Year of Disabled Persons – to improve access to telecommunications services for the disabled.

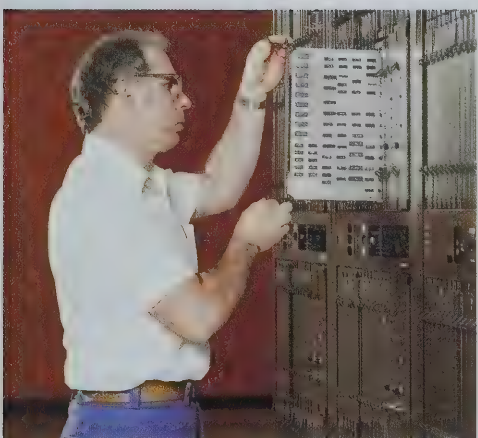
A wide range of new discount telephone rates, developed after lengthy discussions with organizations for the disabled in Ontario and Québec, was introduced in July, 1981. The special rates give certified disabled customers substantial discounts on a variety of telephone products and services.

In addition to the 50 per cent discount on customer-dialed toll calls for deaf keyboard users, Bell Canada inaugurated, in November, the first Canadian toll centre for handling third number, collect and credit card calls for this group of customers.

The Montréal Telecommunications centre for special needs which opened in February, 1980 was moved in July, 1981 to larger premises in the Alexis Nihon Plaza. Both the Toronto centre, which opened in April, 1980 on Temperance Street, and the new Montréal location offer the disabled easy physical access and, by telephone, toll-free service from anywhere in the two provinces.

Betty Leduc, Telecommunications centre for special needs in Montréal, assists Léo Bissonette in a familiarization tour of the products and services offered to the blind and other handicapped customers.

Manufacturing



John Phillips, Central Office, verifies a component of a new Northern Telecom DMS-100/200 combination local/toll switch installed in Kingston in 1981.

Northern Telecom's performance in 1981 was much improved. Major orders continued to come in despite the uncertain economic climate. The order backlog rose to $1,256 million. Many new products are being brought into production.

By any standard, Northern Telecom had an exceptional year in 1981, in recovering from a substantial decline in earnings in 1980 from its electronic office systems business and digital switching operations. Manufacturing revenues, in 1981, grew by $512.5 million or 25.4 per cent.

Northern Telecom's performance reflects, in part, the many important orders it has recorded during the past year, despite weakening economies in Canada, the United States and Europe, which have somewhat constrained growth.

Its order backlog continued to rise, to a value of $1,256 million at year-end, up from $1,004 million at the end of 1980. Among the contracts signed in 1981 were orders by the United States Air Force for twenty-nine DMS-100s, at a cost of US $70 million, to modernize telecommunications in its bases around the world, and by various independent telephone companies for several DMS-200s for the global military communications network required by the United States Department of Defence.

The DMS-200 was selected by AT&T for use in the Bell System and a supply contract was signed in January, 1982. Austria selected the DMS-100 and DMS-200 technology to meet future expansion needs of its telecommunications network. The digital switches would be produced in Austria under licensing agreements with Northern Telecom.

Sales to Bell Canada, its telephone subsidiary and associated companies, rose 27 per cent in 1981 to $871.8 million, from $686.2 million the year before. These sales accounted for approximately 34 per cent of Northern Telecom's consolidated 1981 manufacturing sales, the same as the 1980 level.

Northern Telecom's capital spending in 1981 was $209.6 million, down from 1980's peak level of $225.6 million. It is expected to amount to approximately $255 million in 1982, reflecting the expansion or bringing into production of several manufacturing plants; and the capital costs associated to increase or bring into production such products as Northern Telecom's new DMS-250 digital switching system, Vantage 12™ key telephone system, PLC-1™ private line concentrator, and Displayphone, a new integrated voice and data terminal, now on market trials.

A new digital PBX was introduced in 1981, designed to serve the large-capacity requirements of business, industry and government; the SL-100 business communications system, with a capacity of up to 30,000 lines, is the largest digital PBX available in the world. A major achievement in semiconductor technology was also announced, with the development of the E99 line card chip, a highly significant step towards maintaining Northern Telecom's leadership in digital switching.

Several new products for electronic office systems operations were also introduced throughout 1981, including various models of microprocessor-based units that combine data processing, word processing and communications capabilities.

Net research and development expenses related to manufacturing operations were $181.6 million in 1981 compared with $140.9 million in 1980.

Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles which are in general consistent with those in the United States except for the differences identified in notes 1 and 17 of Notes to Consolidated Financial Statements.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal accounting controls and supports an extensive program of internal audits.

Management believes that the system of internal accounting controls provides a reasonable assurance that:

–transactions are executed in accordance with management's general or specific authorization;

–transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets;

–access to assets is permitted only in accordance with management's general or specific authorization; and

–the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

These financial statements have been examined by Touche Ross & Co., Chartered Accountants, and their report is shown below.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with management as well as with the internal and the independent auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

G. L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada as at December 31, 1981 and 1980 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 10, 1982

Consolidated Income Statement

For the years ended December 31

		1981	1980	1979
				Millions of dollars
Telecommunications operations	Operating revenues			
	Local service	$1,918.3	$1,625.8	$1,449.7
	Long distance service	1,972.0	1,624.8	1,414.0
	Miscellaneous – net	144.8	115.6	97.9
	Total operating revenues	4,035.1	3,366.2	2,961.6
	Operating expenses	2,942.9	2,497.6	2,150.1
	Net revenues – telecommunications operations	1,092.2	868.6	811.5
Manufacturing operations	Sales (note 1)	2,531.0	2,018.5	1,864.1
	Cost of sales	1,803.3	1,515.3	1,269.7
	Selling, general, administrative and other expenses	540.3	482.4	412.6
		2,343.6	1,997.7	1,682.3
	Net revenues – manufacturing operations	187.4	20.8	181.8
Contract and other operations	Operating revenues	823.8	652.3	439.0
	Operating expenses	647.4	516.7	339.0
	Net revenues – contract and other operations	176.4	135.6	100.0
	Total net revenues	1,456.0	1,025.0	1,093.3
	Other income			
	Allowance for funds used during construction	25.1	20.2	20.7
	Equity in net income of associated companies (note 2)	19.9	21.3	18.7
	Miscellaneous – net	55.3	31.2	33.7
	Total other income	100.3	72.7	73.1
	Interest charges			
	Interest on long term debt (note 3)	396.3	319.2	289.7
	Other interest	44.6	39.5	23.1
	Total interest charges	440.9	358.7	312.8
	Income before underlisted items	1,115.4	739.0	853.6
	Unrealized foreign currency losses (notes 1 and 17)	11.5	11.3	10.7
	Income before income taxes, minority interest and extraordinary items	1,103.9	727.7	842.9
	Income taxes (notes 3 and 4)	491.1	367.2	355.4
	Income before minority interest and extraordinary items	612.8	360.5	487.5
	Minority interest	62.1	(3.2)	54.3
	Income before extraordinary items	550.7	363.7	433.2
	Extraordinary items (note 5)	8.7	(90.0)	–
	Net income (note 17)	**559.4**	**273.7**	**433.2**
	Dividends on preferred shares	35.4	38.2	30.5
	Net income applicable to common shares	**$ 524.0**	**$ 235.5**	**$ 402.7**
	Earnings per common share* (notes 6 and 17)			
	before extraordinary items	$2.97	$2.00	$2.64
	after extraordinary items	$3.02	$1.45	$2.64
	Assuming full dilution			
	before extraordinary items	$2.89	$1.98	$2.55
	after extraordinary items	$2.94	$1.45	$2.55
	Dividends declared per common share	**$1.84**	**$1.68**	**$1.55**
	*Based on weighted average common shares outstanding (thousands)	173,586	162,762	152,810

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 17.

Consolidated Balance Sheet

As at December 31

		Millions of dollars 1981	1980
Assets			
Telecommunications property – at cost (note 7)	Buildings, plant and equipment	$11,870.6	$10,782.3
	Less: Accumulated depreciation	3,648.9	3,262.9
		8,221.7	7,519.4
	Land	85.4	87.0
	Plant under construction	398.7	290.0
	Material and supplies	115.8	109.5
		8,821.6	8,005.9
Manufacturing and other property – at cost (note 7)	Buildings, plant and equipment	1,068.6	919.3
	Less: Accumulated depreciation	456.5	377.2
		612.1	542.1
	Land	27.1	21.7
		639.2	563.8
		9,460.8	8,569.7
Investments	Associated companies and non-consolidated subsidiaries – at equity (note 1)	487.8	495.4
	Other	6.7	4.6
		494.5	500.0
Current assets	Cash and temporary cash investments – at cost (approximates market)	179.6	211.7
	Accounts receivable – principally from customers including $7.5 (1980 – $6.1) from associated companies, and less $16.0 (1980 – $18.1) for provision for uncollectibles	1,274.0	1,061.3
	Inventories (note 8)	642.9	574.4
	Other (principally prepaid expenses)	83.1	128.9
		2,179.6	1,976.3
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	19.3	66.4
	Long term receivables	29.0	33.1
	Deferred charges		
	contract operations	27.6	47.2
	unrealized foreign currency losses, less amortization	131.1	161.0
	other	73.9	60.6
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	36.2	34.7
		317.1	403.0
	Total assets	**$12,452.0**	**$11,449.0**

On behalf of the Board of Directors:

Marcel Bélanger,
Director

E. Neil McKelvey,
Director

Liabilities and Shareholders' Equity		1981	1980
		Millions of dollars	
Capital stock authorized (note 9)			
Common shareholders' equity	Common shares (note 10)	$ 1,479.0	$ 1,394.2
	Premium on capital stock	1,005.2	898.1
	Contributed surplus	15.3	15.3
	Retained earnings	1,359.8	1,155.7
		3,859.3	3,463.3
Convertible preferred shares (redeemable) (note 11)		258.2	345.7
Non-convertible preferred shares (redeemable) (note 11)		103.4	108.4
Minority interest in subsidiary companies	Preferred shares	27.9	28.9
	Common shares	419.3	363.0
		447.2	391.9
Long term debt (including unrealized foreign currency losses) (note 12)		4,539.5	4,312.3
Current liabilities	Accounts payable	898.4	795.5
	Advance billing for service	83.1	69.4
	Dividends payable	95.2	85.1
	Taxes accrued	186.8	37.4
	Interest accrued	105.8	98.9
	Debt due within one year (note 13)	352.5	274.4
		1,721.8	1,360.7
Deferred credits	Income taxes	1,331.6	1,203.5
	Other (note 15)	191.0	263.2
		1,522.6	1,466.7
Commitments and contingent liabilities (notes 7 and 15)			
	Total liabilities and shareholders' equity	**$12,452.0**	**$11,449.0**

G.L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

For the years ended December 31

	1981	1980	1979
			Millions of dollars
Balance at beginning of year	$ 898.1	$ 807.8	$ 607.4
Premium on common shares issued during the year			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	46.7	46.2	38.0
Under the Employees' Savings Plan (1966)	4.1	4.0	3.5
Underwritten issue	–	–	120.7
Upon conversion of preferred shares	51.6	39.2	38.2
Under the Optional Stock Dividend Program	4.7	.9	–
	107.1	90.3	200.4
Balance at end of year	$1,005.2	$ 898.1	$ 807.8

Consolidated Statement of Retained Earnings

For the years ended December 31

	1981	1980	1979
			Millions of dollars
Balance at beginning of year	$1,155.7	$1,198.4	$1,041.1
Net income	559.4	273.7	433.2
Excess of par value over cost of preferred shares purchased for cancellation (note 11)	1.0	.3	–
	1,716.1	1,472.4	1,474.3
Deduct:			
Dividends			
Preferred shares			
$3.20 shares	.3	.3	.4
$3.34 shares	.2	.2	.3
$4.23 shares	.3	.6	1.5
$2.28 shares	1.0	2.0	5.3
$1.96 shares	4.2	11.2	13.5
$2.05 shares	20.5	14.6	–
$2.25 shares	3.0	3.1	3.2
$1.80 shares	5.9	6.2	6.3
	35.4	38.2	30.5
Common shares	320.6	274.9	240.6
	356.0	313.1	271.1
Expenses of issues of capital stock	.3	3.6	4.8
	356.3	316.7	275.9
Balance at end of year	$1,359.8	$1,155.7	$1,198.4

Consolidated Statement of Changes in Financial Position

For the years ended December 31

Millions of dollars

		1981	1980	1979
Source of funds	Operations			
	Income before extraordinary items	$ 550.7	$ 363.7	$ 433.2
	Items not affecting funds			
	Depreciation	804.6	732.3	647.0
	Deferred income taxes	128.1	129.6	132.8
	Allowance for funds used during construction	(25.1)	(20.2)	(20.7)
	Equity earnings in non-consolidated finance subsidiaries	(58.2)	(58.2)	(21.5)
	Other – net	29.0	(23.7)	34.0
	Total from operations exclusive of extraordinary items	1,429.1	1,123.5	1,204.8
	Extraordinary items (net of non-fund items)	34.9	(57.4)	–
	Proceeds from long term debt	460.1	767.9	575.5
	Issue of common shares			
	underwritten issue	–	–	194.1
	under the Dividend Reinvestment and Stock Purchase Plan	86.9	83.0	64.1
	under the Optional Stock Dividend Program	8.7	1.5	–
	upon conversion of convertible preferred shares	87.5	71.1	74.0
	Proceeds from issue of preferred shares	–	196.8	–
	Proceeds from issues of shares by subsidiaries to minority shareholders	5.8	13.4	97.8
	Decrease in cash and temporary cash investments held for contract operations	47.1	–	42.3
	Dividend from a non-consolidated finance subsidiary	59.7	–	–
	Increase (decrease) in amounts due to non-consolidated finance subsidiaries	39.5	(8.6)	166.0
	Miscellaneous	78.8	72.8	192.5
	Decrease in working capital	157.8	–	–
		$2,495.9	$2,264.0	$2,611.1
Disposition of funds	Capital expenditures			
	Gross capital expenditures	$1,713.9	$1,598.2	$1,351.0
	Deduct: charges not requiring funds	(11.8)	(16.5)	(13.4)
	Increase (decrease) in material and supplies	6.3	(19.5)	21.3
	Net expenditures	1,708.4	1,562.2	1,358.9
	Dividends by Bell Canada	356.0	313.1	271.1
	Dividends by subsidiaries to minority shareholders	20.8	19.9	15.5
	Reduction of long term debt	257.1	177.8	428.8
	Acquisition of investments (less working capital acquired in 1980 of $10.7)	1.7	25.1	2.9
	Investment in non-consolidated finance subsidiaries	6.9	10.6	233.8
	Conversion of preferred shares	87.5	71.1	74.0
	Increase in cash and temporary cash investments held for contract operations	–	16.9	–
	Miscellaneous	57.5	51.9	16.2
	Increase in working capital	–	15.4	209.9
		$2,495.9	$2,264.0	$2,611.1
Working capital changes	Increase (decrease) in current assets:			
	Cash and temporary cash investments	$ (32.1)	$ 116.4	$ (133.7)
	Accounts receivable	212.7	1.2	286.7
	Inventories	68.5	81.9	131.1
	Other	(45.8)	22.4	28.6
	(Increase) decrease in current liabilities:			
	Accounts payable	(102.9)	(224.6)	(93.1)
	Advance billing for service	(13.7)	(17.0)	(2.8)
	Dividends payable	(10.1)	(12.5)	(11.6)
	Taxes accrued	(149.4)	36.0	37.4
	Interest accrued	(6.9)	(20.0)	(7.4)
	Debt due within one year	(78.1)	31.6	(25.3)
	Increase (decrease) in working capital, as above	$ (157.8)	$ 15.4	$ 209.9

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 17.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation
The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (50% or less, and 20% or more) are accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3).

The associated companies of Bell Canada and its subsidiaries at December 31, 1981 were Maritime Telegraph and Telephone Company, Limited[1], The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., and Edward H. O'Brien Pty. Limited.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at December 31, 1981 were:

Northern Telecom Limited	55.1%
Newfoundland Telephone Company Limited	63.9
Northern Telephone Limited	99.8
Télébec Ltée	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada – International Management, Research and Consulting Ltd.	100

The excess of cost of shares over acquired equity (goodwill) is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $2.8 million in 1981 ($2.8 – 1980, $4.1 – 1979). In addition, $89.4 million representing the unamortized excess of cost of shares over acquired equity, related to the acquisition of Sycor, Inc. and Data 100 Corporation, was fully written off in 1980 (see note 5).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position on a non-consolidated basis, are presented on pages 41 to 43.

(1) At December 31, 1981, Bell Canada was the registered owner of 2,172,200 or 35.5% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

1. Accounting policies (continued)

Consolidation (continued)

Manufacturing sales comprise:

	Millions of dollars		
	1981	1980	1979
Sales to:			
Bell Canada	$ 794.6	$ 630.9	$ 616.0
Telephone subsidiary and associated companies of Bell Canada	77.2	55.3	43.5
Sub-total	871.8	686.2	659.5
Sales to others	1,659.2	1,332.3	1,204.6
Total sales	$2,531.0	$2,018.5	$1,864.1

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1981 was $804.6 million ($732.3 – 1980, $647.0 – 1979) and the composite rate was 6.55% (6.64% – 1980, 6.55% – 1979).

Research and development

All research and development costs incurred, which amounted to $256.3 million ($197.3 – 1980, $183.7 – 1979), were charged to income.

Translation of foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items.

In 1981, unrealized foreign currency losses charged to income were $11.5 million ($11.3 – 1980, $10.7 – 1979), consisting of the amortization of $13.0 million ($11.2 – 1980, $11.3 – 1979) of foreign currency losses on long term debt and gains of $1.5 million (losses of $.1 – 1980, gains of $.6 – 1979) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

1. Accounting policies (continued)

Leases
Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Inventories
Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction
Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

At December 31, 1981 foreign subsidiaries of Northern Telecom had tax loss carry-forwards for accounting purposes of approximately $160.2 million, on which tax effects have not been recognized in the accounts and are available to reduce taxable income in future years. Of the total, $1.2 million will expire in 1982, $5.1 million will expire if not used between 1983 and 1987, $138.8 million will expire in 1995, $11.5 million will expire in 1996, while $3.6 million can be carried forward indefinitely.

2. Equity in net income of associated companies

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries (see note 3).

The dividends received from associated companies amounted to $12.2 million ($12.5 – 1980, $9.3 – 1979).

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency gains or losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies:

			Millions of dollars
	1981	1980	1979
Income	$108.1	$ 65.1	$ 33.0
Interest expense	(11.6)	(2.2)	(5.6)
Other expenses	(26.4)	(1.9)	(.6)
Income from operations	70.1	61.0	26.8
Unrealized foreign currency gains (losses)	.2	6.0	(.9)
Income taxes	(12.1)	(8.8)	(4.4)
Net income	$ 58.2	$ 58.2	$ 21.5

	Dec. 31, 1981	Dec. 31, 1980
Total assets	$409.9	$383.4
Total liabilities	$ 56.9	$ 35.6
Shareholders' equity	$353.0	$347.8

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1981	1980	1979
Statutory income tax rate	51.2%	51.1%	48.9%
i) Allowance for funds used during construction, net of applicable depreciation adjustment	(.7)	(.8)	(.7)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(.2)	(.4)	(.8)
iii) Equity in net income of associated companies	(.9)	(1.5)	(1.1)
iv) Tax incentives on research and development expenditures	(2.0)	(3.0)	(1.9)
v) Inventory credit	(.3)	(.5)	(.3)
vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(3.4)	(4.3)	(1.9)
vii) Effect of losses of foreign subsidiaries not recognized	1.0	9.2	–
viii) Other	(.2)	.7	–
Effective income tax rate	44.5%	50.5%	42.2%

Details of the company's income taxes are as follows:

			Millions of dollars
	1981	1980	1979
Income before income taxes, minority interest and extraordinary items			
Canadian	$ 870.7	$718.8	$725.2
Foreign	233.2	8.9	117.7
Total income before income taxes, minority interest and extraordinary items	$1,103.9	$727.7	$842.9
Income taxes			
Canadian	$ 418.6	$348.4	$319.2
Foreign	72.5	18.8	36.2
Total income taxes	$ 491.1	$367.2	$355.4
Income taxes			
Current	$ 350.3	$270.3	$222.5
Deferred	128.1	129.5	132.9
Tax effect of operating loss of foreign subsidiaries	12.7	(32.6)	–
Total income taxes	$ 491.1	$367.2	$355.4

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	Millions of dollars	
	1981	1980
i) Gain (net of income taxes of $19.9 million and minority interest of $7.3 million) resulting from the sale of investment in Intersil, Inc. by Northern Telecom Limited ($0.05 per common share).	$8.7	$ –
ii) Write-offs by Northern Telecom in the fourth quarter of 1980 of $163.8 million relating to companies (Sycor, Inc. and Data 100) acquired in 1978 by Northern Telecom which have had unsatisfactory operating performance. These write-offs consist of a) $106.4 million of unamortized goodwill and technology investments and b) $57.4 million (net of income taxes of $3.2 million) relating to the discontinuance of certain elements of the electronic office systems business ($0.55 per common share). These write-offs are before deduction of minority interest of $73.8 million.	–	(90.0)
	$8.7	$(90.0)

6. Earnings per common share

Earnings per common share are based on weighted average shares outstanding. For the computation of the earnings per share, assuming full dilution, the dividends on convertible preferred shares have been added back to income.

7. Leases

Telecommunications property and Manufacturing and other property include property recorded under capital leases as follows:

	Millions of dollars	
	Dec. 31, 1981	Dec. 31, 1980
Telecommunications property		
Buildings, plant and equipment	$37.5	$38.7
Less: Accumulated depreciation	13.6	13.4
	23.9	25.3
Land	3.4	3.4
	$27.3	$28.7
Manufacturing and other property		
Buildings, plant and equipment	$33.7	$34.3
Less: Accumulated depreciation	10.4	7.8
	$23.3	$26.5

7. Leases (continued)

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1981, are as follows:

	Millions of dollars	
	Capital leases	Operating leases
1982	$ 14.4	$ 75.0
1983	12.9	58.3
1984	11.7	47.5
1985	10.9	25.7
1986	10.2	19.3
Thereafter	74.8	66.0
Total future minimum lease payments	134.9	$291.8
Less: Estimated executory costs	32.5	
Net minimum lease payments	102.4	
Less: Imputed interest	47.9	
Present value of net minimum lease payments	$ 54.5	

Rental expense applicable to operating leases for the year 1981 was $133.3 million ($121.6 – 1980, $107.4 – 1979).

8. Inventories

	Millions of dollars	
	Dec. 31, 1981	Dec. 31, 1980
Raw materials	$155.3	$190.3
Work-in-process	260.4	196.5
Finished goods	227.2	187.6
	$642.9	$574.4

9. Capital stock authorized

By charter–$5,000 million, consisting of shares of one or more classes, with or without par value.

By shareholders—$5,000 million, consisting of common shares of the par value of $8⅓ each and preferred shares. The following classes of preferred shares have been authorized to date by shareholders: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94 million; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225 million; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219 million; (d) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $175 million; and (e) ten additional classes of preferred shares to a maximum aggregate amount of $1,000 million.

10. Common shares

Dollars in millions

Outstanding	Dec. 31,1981 Number of shares	Amount	Dec. 31, 1980 Number of shares	Amount
Par value of $8⅓ per share	177,480,915	$1,479.0	167,302,740	$1,394.2

Number of common shares issued during the last three years are as follows:

	1981	1980	1979
For cash			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	4,856,378	4,450,054	3,144,057
Under the Employees' Savings Plan (1966)	542,367	469,886	458,323
Underwritten issue	–	–	9,375,000
Upon conversion of preferred shares	4,309,345	3,822,103	4,305,681
Under the Optional Stock Dividend Program*	470,085	82,993	–
	10,178,175	8,825,036	17,283,061

*Under the Optional Stock Dividend Program, which became effective with the quarterly common dividend paid on October 15, 1980, shareholders may elect to receive dividends on common shares in the form of additional common shares.

Common shares reserved at December 31,1981 – 24,540,363:
9,908,640 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.
161,020 shares for issuance under the Employees' Savings Plan (1966).
13,023,781 shares for issuance upon conversion of all convertible preferred shares.
1,446,922 shares for issuance under the Optional Stock Dividend Program.

11. Preferred shares

Dollars in millions

	Outstanding	Dec. 31, 1981 Number of shares	Amount	Dec. 31, 1980 Number of shares	Amount
Convertible preferred shares (redeemable)	$3.20 shares (par value of $47 per share)	67,772	$ 3.2	100,102	$ 4.7
	$3.34 shares, class B, series B (par value of $52 per share)	52,853	2.8	69,208	3.6
	$4.23 shares, class C, series D (par value of $47 per share)	66,575	3.1	98,254	4.6
	$2.28 shares, class C, series E (par value of $25 per share)	348,889	8.7	531,499	13.3
	$1.96 shares, class D, series G (par value of $25 per share)	1,621,067	40.5	4,779,266	119.5
	$2.05 shares, class E, series H (par value of $20 per share)	9,993,567	199.9	9,998,088	200.0
	Total par value of convertible preferred shares		$258.2		$345.7
Non-convertible preferred shares (redeemable)	$2.25 shares, class B, series C (par value of $30 per share)	1,292,000	$ 38.7	1,343,000	$ 40.3
	$1.80 shares, class B, series F (par value of $20 per share)	3,233,800	64.7	3,405,000	68.1
	Total par value of non-convertible preferred shares		$103.4		$108.4

In 1980 Bell Canada sold 10,000,000 $2.05 preferred shares of the par value of $20 each. No other preferred shares were issued during the three year period ended December 31, 1981.

11. Preferred shares (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at Dec. 31, 1981	Purchase fund requirements (d)
Convertible (a)	$3.20 shares	Currently at $47.50 per share to Feb. 1, 1982 and at $47 thereafter.	1 for 3	Feb. 1, 1982	1,932,228 including 1981 – 32,330 (1980 – 8,889) (1979 – 30,281)	–
	$3.34 shares	Currently at $53 per share to Aug. 1, 1982 and at reducing amounts thereafter to $52 after Aug. 1, 1983.	1 for 3	Aug. 1, 1983	1,947,147 including 1981 – 16,355 (1980 – 12,212) (1979 – 37,576)	–
	$4.23 shares	Currently at $50.30 per share to Dec. 1, 1982 and at reducing amounts thereafter to $47 after Dec. 1, 1986.	1 for 3	Dec. 1, 1986	1,933,425 including 1981 – 31,679 (1980 – 160,925) (1979 – 309,535)	66,575 shares in 1982
	$2.28 shares	Currently at $27 per share to Jul. 2, 1982 and at reducing amounts thereafter to $25 after Jul. 2, 1987.	2 for 3	Jul. 2, 1987	4,651,111 including 1981 – 182,610 (1980 – 928,151) (1979 – 1,598,675)	Annually 250,000 shares commencing in 1983
	$1.96 shares	On May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990. (b)	5 for 6	May 1, 1990	5,378,933 including 1981 – 3,158,199 (1980 – 1,568,286) (1979 – 646,183)	Quarterly 87,500 shares commencing in 1986
	$2.05 shares	On April 15, 1986 at $21.50 per share to April 15, 1987 and at reducing amounts thereafter to $20 after April 15, 1992. (c)	1 for 1	Apr. 15, 1992	6,433 including 1981 – 4,521 (1980 – 1,912)	Quarterly 125,000 shares commencing in 1988
Non-convertible (a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	–	–	–	Annually 51,000 shares
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	–	–	–	Quarterly 26,250 shares

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.
(b) In the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25.
(c) In the event that not more than 1,500,000 $2.05 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $20.
(d) Purchase funds: Under the terms and conditions of the purchase funds, Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the par value per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.
At December 31, 1981, 408,000 $2.25 preferred shares had been purchased and cancelled, including 51,000 shares in 1981, for that year.
At December 31, 1981, 266,200 $1.80 preferred shares had been purchased and cancelled, including 171,200 shares purchased in 1981 representing 165,400 shares for the purchase fund requirements up to December 31, 1980 and 5,800 shares applicable to the first quarter of 1981.
Taking into account purchases to December 31, 1981, the maximum aggregate par value of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1982 to 1986 are $8.7, $9.9, $6.1, $3.6 and $12.4 million, respectively.

12. Long term debt

Bell Canada					Millions of dollars
First mortgage bonds	4¼–5¾%	6–7⅞%	8–9⅞%	10–14½%	Total outstanding Dec. 31, 1981
Due 1982	$ 90.0	$ –	$ –	$ –	$ 90.0
1983	50.0	–	–	–	50.0
1984	60.0	–	–	–	60.0
1985	–	–	2.0	–	2.0
1986	–	35.0	2.0	–	37.0
1987-1996	178.0	272.5	413.1	130.0	993.6
1997-2004	–	154.0	266.0	–	420.0
	378.0	461.5	683.1	130.0	1,652.6
Debentures and notes					
Due 1985	–	–	–	200.0	200.0
1986	–	–	60.0	60.0	120.0
1987-1993	–	166.6	99.9	172.0	438.5
2002-2010	–	–	750.0	375.0	1,125.0
	–	166.6	909.9	807.0	1,883.5
Other					
Mortgage (due in instalments to 1995–9% interest)					32.9
Obligations under capital leases					28.1
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					112.6
Unrealized foreign currency losses*					167.9
Sub-total – Bell Canada					3,877.6
Subsidiaries (including $306.9 million due to non-consolidated finance subsidiaries and $26.4 million of obligations under capital leases)					848.8
Unrealized foreign currency losses*					2.9
Sub-total – consolidated					4,729.3
Less: due within one year (including $30.6 million due to non-consolidated finance subsidiaries)					189.8
Total – consolidated					$4,539.5

*Arising from the translation of foreign currency denominated debt at rate prevailing on December 31, 1981.

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.

First mortgage bonds include $50 million U.S. maturing in 1983 and $518 million U.S. maturing from 1988 to 2004. Debentures and notes include $910 million U.S. maturing from 1986 to 2010, 150 million Swiss Francs maturing in 1987 and 100 million Swiss Francs maturing in 1993.

At December 31, 1981, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1982 to 1986 are $189.8, $91.0, $87.3, $253.5 and $212.1 million, respectively.

At December 31, 1981, the debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to banks, was $17.8 million.

13. Debt due within one year

		Millions of dollars
	Dec. 31, 1981	Dec. 31, 1980
Long term debt	$189.8	$ 93.6
Notes payable	133.2	151.9
Bank advances	29.5	28.9
	$352.5	$274.4

14. Unused bank lines of credit

At December 31, 1981, unused operating bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $668.3 million.

15. Guarantees

Included in Deferred credits—Other at December 31, 1981 is the balance of $12.7 million of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $20.9 million at December 31, 1981, has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $59.6 million at December 31, 1981.

16. Quarterly financial data

Summarized consolidated quarterly financial data (in millions of dollars except per share amounts) are as follows:

	Three months ended			
1981	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$941.3	$975.3	$1,002.7	$1,115.8
Net revenues – telecommunications operations	242.1	245.5	258.2	346.4
Manufacturing operations				
Sales	574.7	631.4	627.5	697.4
Gross profit	159.1	176.8	173.7	218.1
Net revenues – manufacturing operations	41.4	49.0	40.9	56.1
Contract and other operations				
Operating revenues	173.0	186.6	202.8	261.4
Net revenues – contract and other operations	37.5	40.5	43.9	54.5
Income before extraordinary item	117.8	127.8	122.7	182.4
Net income	126.5	127.8	122.7	182.4
Net income applicable to common shares	117.0	119.1	114.0	173.9
Earnings per common share* before extraordinary item	$.64	$.69	$.65	$.99
Assuming full dilution before extraordinary item	$.62	$.67	$.64	$.95
*Based on weighted average common shares outstanding (thousands)	170,061	172,968	174,802	176,431

	Three months ended			
1980	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$767.9	$797.0	$865.1	$936.2
Net revenues – telecommunications operations	170.4	170.9	252.7	274.6
Manufacturing operations				
Sales	477.2	551.8	466.7	522.8
Gross profit	141.4	130.7	126.4	104.7
Net revenues (losses) – manufacturing operations	33.5	10.5	15.2	(38.4)
Contract and other operations				
Operating revenues	139.8	138.4	167.6	206.5
Net revenues – contract and other operations	35.7	30.2	33.4	36.3
Income before extraordinary item	93.7	65.2	112.6	92.2
Net income	93.7	65.2	112.6	2.2
Net income (loss) applicable to common shares	87.2	54.9	101.7	(8.3)
Earnings per common share* before extraordinary item	$.55	$.34	$.62	$.49
Assuming full dilution before extraordinary item	$.54	$.34	$.60	$.49
*Based on weighted average common shares outstanding (thousands)	159,541	161,933	163,863	165,669

17. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies

If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated income before extraordinary items and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated income before extraordinary items	
	Total in millions	Per share amounts
Three months ended		
March 31, 1981	$ 11.5	$ .07
June 30, 1981	(12.7)	(.07)
September 30, 1981	(5.4)	(.03)
December 31, 1981	27.5	.16
March 31, 1980	$(20.5)	$(.13)
June 30, 1980	40.6	.25
September 30, 1980	(16.4)	(.10)
December 31, 1980	(24.4)	(.15)
Year ended		
December 31, 1981	$ 20.9	$ .12
December 31, 1980	(20.7)	(.13)
December 31, 1979	24.7	.16

b) Extraordinary items

The extraordinary items, reported in 1981 and 1980, of $8.7 million and $90.0 million, respectively, as described in note 5, do not meet the criteria of extraordinary items under United States practice; consequently those amounts would be considered in determining income before extraordinary items for the years 1981 and 1980. Net income is identical under both Canadian and United States reporting practices.

If items (a) and (b) above had been reported in accordance with United States generally accepted accounting principles, the results of operations for each of the three years in the period ended December 31, 1981 would have been as follows:

	1981	1980	1979
Income before extraordinary items (millions)	$580.3	$253.0	$457.9
Earnings per common share	$3.14	$1.32	$2.80

18. Pensions

Bell Canada and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension costs was $236.5 million for the year ended December 31, 1981 ($218.1 – 1980, $182.2 – 1979). In 1979 and 1980 certain pension plans were amended to provide improved benefits to active and retired employees.

In compliance with the United States Financial Accounting Standards Board's Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. A comparison of accumulated plan benefits and plan net assets is provided as follows:

	Millions of dollars	
	Dec. 31, 1980	Dec. 31, 1979
Actuarial present value of accumulated plan benefits		
Vested	$1,623.2	$1,429.0
Non-vested	252.8	211.6
	$1,876.0	$1,640.6
Net assets available for benefits – at market value	$2,111.6	$1,655.1

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for both 1980 and 1979.

19. Remuneration of directors and officers

During the year 1981, Bell Canada's shareholders were served by 20 directors. As such, their aggregate remuneration from Bell Canada was $352 thousand. Some of them served also as directors of certain subsidiaries; as such their aggregate remuneration was $191 thousand from these companies.

Bell Canada had 32 officers during 1981, one of whom was also an officer of Northern Telecom Limited, and their aggregate remuneration as officers was $4,278 thousand. Three of the officers served also as directors of Bell Canada in 1981.

In addition, amounts paid or payable by Bell Canada pursuant to special retirement plans for certain of its officers were $365 thousand for 1981.

20. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and
2) Telecommunications equipment manufacturing, which involves the design, manufacture and marketing of central office switching equipment, subscriber apparatus and business communications systems, transmission equipment and wire, cable and outside plant products.

In addition "Other" includes the following business activities: contract operations, electronic office systems, directory and printing operations.

The following table sets forth revenues and sales, net revenues and supplementary data for each of the company's business segments for the years ended December 31, 1981, 1980 and 1979.

			Millions of dollars
By segments	1981	1980	1979
Revenues and sales			
Telecommunications operations	$3,971.4(a)	$3,310.9(a)	$2,914.4(a)
Telecommunications equipment manufacturing	2,248.5(b)	1,751.2(b)	1,504.7(b)
Other	1,170.0	974.9	845.6
Consolidated	$7,389.9	$6,037.0	$5,264.7
Intersegment revenues and sales			
Telecommunications operations	$ 63.7	$ 55.3	$ 47.2
Telecommunications equipment manufacturing	3.4	2.1	2.5
Other	194.7	135.0	104.9
Eliminations	(261.8)	(192.4)	(154.6)
	$ –	$ –	$ –
Total revenues and sales			
Telecommunications operations	$4,035.1	$3,366.2	$2,961.6
Telecommunications equipment manufacturing	2,251.9	1,753.3	1,507.2
Other	1,364.7	1,109.9	950.5
Eliminations	(261.8)	(192.4)	(154.6)
Consolidated	$7,389.9	$6,037.0	$5,264.7
Total net revenues			
Telecommunications operations	$1,091.0	$ 867.1	$ 811.5
Telecommunications equipment manufacturing	301.8	187.4	232.5
Other	163.8(a)	53.0(a)	127.7(a)
	1,556.6	1,107.5	1,171.7
General corporate expenses	(100.6)	(82.5)	(78.4)
Consolidated	1,456.0	1,025.0	1,093.3
Equity in net income of associated companies			
Telecommunications operations	17.3	16.4	15.5
Telecommunications equipment manufacturing	–	.1	–
Other	2.6	4.8	3.2
	19.9	21.3	18.7
Other income	80.4	51.4	54.4
Interest charges	(440.9)	(358.7)	(312.8)
Unrealized foreign currency losses	(11.5)	(11.3)	(10.7)
Income before income taxes, minority interest and extraordinary items	$1,103.9	$ 727.7	$ 842.9

20. Industry segments information (continued)

By segments	1981	1980	1979
			Millions of dollars
Identifiable assets			
Telecommunications operations	$ 9,350.8	$ 8,434.7	$ 7,628.6
Telecommunications equipment manufacturing	1,383.6	1,145.8	983.5
Other	1,017.1	989.6	1,089.3
Eliminations	(205.9)	(150.1)	(119.8)
Consolidated	11,545.6	10,420.0	9,581.6
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	130.4	124.1	117.1
Telecommunications equipment manufacturing	–	–	1.7
Other	357.4	371.3	298.6
Consolidated	487.8	495.4	417.4
General corporate assets	418.6(c)	533.6(c)	377.5(c)
Total assets as at December 31	$12,452.0	$11,449.0	$10,376.5
Depreciation			
Telecommunications operations	$ 680.3	$ 616.9	$ 557.8
Telecommunications equipment manufacturing	49.3	41.9	33.6
Other	69.2	70.4	52.2
	798.8	729.2	643.6
Depreciation – general corporate assets	5.8	3.1	3.4
Total depreciation	$ 804.6	$ 732.3	$ 647.0
Capital expenditures			
Telecommunications operations	$ 1,480.6	$ 1,363.9	$ 1,176.0
Telecommunications equipment manufacturing	91.8	127.8	79.0
Other	137.7	102.8	93.3
Eliminations	–	–	(3.0)
	1,710.1	1,594.5	1,345.3
Capital expenditures – general corporate assets	3.8	3.7	5.7
Total capital expenditures	$ 1,713.9	$ 1,598.2	$ 1,351.0

The following table sets forth information by geographic area for the years ended December 31, 1981, 1980 and 1979.

By geographic area (d)	1981	1980	1979
			Millions of dollars
Revenues and sales			
Canada	$ 5,607.6	$ 4,575.7	$ 4,013.4
U.S.A.	1,080.6	838.0	766.3
Other	701.7	623.3	485.0
Consolidated	$ 7,389.9	$ 6,037.0	$ 5,264.7
Transfers between area			
Canada	$ 160.2	$ 87.5	$ 66.9
U.S.A.	85.3	67.4	20.5
Other	15.5	2.8	–
Eliminations	(261.0)	(157.7)	(87.4)
	$ –	$ –	$ –
Total revenues and sales			
Canada	$ 5,767.8	$ 4,663.2	$ 4,080.3
U.S.A.	1,165.9	905.4	786.8
Other	717.2	626.1	485.0
Eliminations	(261.0)	(157.7)	(87.4)
Consolidated	$ 7,389.9	$ 6,037.0	$ 5,264.7

20. Industry segments information (continued)

By geographic area (d)	1981	1980	1979
	Millions of dollars		
Total net revenues (losses) before research and development expenses			
Canada	$ 1,535.7	$ 1,206.7	$ 1,120.5
U.S.A.	128.4	(23.2)	143.6
Other	149.8	119.5	92.6
Eliminations	(1.0)	1.8	(1.3)
	1,812.9	1,304.8	1,355.4
Research and development expenses	(256.3)	(197.3)	(183.7)
General corporate expenses	(100.6)	(82.5)	(78.4)
Consolidated	1,456.0	1,025.0	1,093.3
Equity in net income of associated companies			
Canada	17.3	16.4	15.5
U.S.A.	1.3	3.5	2.4
Other	1.3	1.4	.8
	19.9	21.3	18.7
Other income	80.4	51.4	54.4
Interest charges	(440.9)	(358.7)	(312.8)
Unrealized foreign currency losses	(11.5)	(11.3)	(10.7)
Income before income taxes, minority interest and extraordinary items	$ 1,103.9	$ 727.7	$ 842.9
Identifiable assets			
Canada	$10,352.0	$ 9,260.2	$ 8,185.5
U.S.A.	877.3	884.5	892.6
Other	539.5	414.0	570.0
Eliminations	(223.2)	(138.7)	(66.5)
Consolidated	11,545.6	10,420.0	9,581.6
Investments in associated companies and non-consolidated subsidiaries			
Canada	130.5	124.1	117.1
U.S.A.	60.6	65.7	43.7
Other	296.7	305.6	256.6
Consolidated	487.8	495.4	417.4
General corporate assets	418.6(c)	533.6(c)	377.5(c)
Total assets as at December 31	$12,452.0	$11,449.0	$10,376.5

a) Telecommunications operations segment revenues include $29.8 million ($21.0 – 1980, $19.5 – 1979) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.
b) Telecommunications equipment manufacturing includes sales of $871.8 million ($686.2 – 1980, $659.5 – 1979) to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation. Telecommunications equipment manufacturing sales of Northern Telecom to Bell Canada are at prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.
c) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.
d) The point of origin (the location of the selling organization) of revenues and sales and the location of the assets determine the geographic area.

21. Subsequent event

On January 2, 1982, Bell Canada repaid $40 million principal amount of its 5½% first mortgage bonds, Series V, which matured on that date.

Summarized Income Statement Non-Consolidated (Note 1)

For the years ended December 31

Millions of dollars

		1981	1980	1979
Telecommunications operations	Operating revenues			
	Local service	$1,844.1	$1,562.5	$1,392.7
	Long distance service	1,861.1	1,529.0	1,329.7
	Miscellaneous – net	139.9	111.6	94.7
	Total operating revenues	3,845.1	3,203.1	2,817.1
	Operating expenses	2,818.1	2,390.3	2,054.4
	Net revenues – telecommunications operations	1,027.0	812.8	762.7
	Other income			
	Dividends			
	subsidiary companies	31.8	29.7	24.2
	associated companies	10.0	9.1	8.5
	Allowance for funds used during construction	23.8	18.5	20.0
	Miscellaneous – net	36.6	18.5	28.1
	Total other income	102.2	75.8	80.8
	Income before underlisted items	1,129.2	888.6	843.5
	Interest charges	335.2	287.0	252.6
	Unrealized foreign currency losses	13.1	10.0	9.9
	Income before income taxes	780.9	591.6	581.0
	Income taxes	357.8	272.5	256.4
	Income – telecommunications operations	423.1	319.1	324.6
Contract operations	Operating revenues	493.2	453.6	319.8
	Operating expenses	375.9	362.1	252.1
	Net revenues – contract operations	117.3	91.5	67.7
	Miscellaneous – net	(6.0)	3.6	(7.2)
	Income before income taxes	111.3	95.1	60.5
	Income taxes	58.4	48.3	29.3
	Income – contract operations	52.9	46.8	31.2
	Income before extraordinary item	476.0	365.9	355.8
	Extraordinary itemφ	–	–	29.8
	Net income	**476.0**	**365.9**	**385.6**
	Dividends on preferred shares	35.4	38.2	30.5
	Net income applicable to common shares	**$ 440.6**	**$ 327.7**	**$ 355.1**
	Earnings per common share*			
	before extraordinary item	$2.54	$2.01	$2.13
	after extraordinary item	$2.54	$2.01	$2.32
	Assuming full dilution			
	before extraordinary item	$2.49	$1.99	$2.08
	after extraordinary item	$2.49	$1.99	$2.26
	Dividends declared per common share	**$1.84**	**$1.68**	**$1.55**
	*Based on weighted average common shares outstanding (thousands)	173,586	162,762	152,810

φ Gain after deducting income taxes of $4.1 million arising from the sale, upon exercise of warrants which were exercisable prior to December 1, 1979, of common shares of Northern Telecom Limited.

Summarized Balance Sheet Non-Consolidated (Note 1)

As at December 31

		Millions of dollars	
Assets		1981	1980
Telecommunications property – at cost	Buildings, plant and equipment	$11,296.6	$10,275.8
	Less: Accumulated depreciation	3,478.6	3,114.0
		7,818.0	7,161.8
	Land, and plant under construction	460.4	352.1
	Material and supplies	108.8	103.0
		8,387.2	7,616.9
Investments – at cost	Subsidiary companies	352.9	331.3
	Associated companies	108.0	108.0
		460.9	439.3
Current assets		922.2	854.8
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	19.3	66.4
	Deferred charges		
	contract operations	27.6	47.2
	unrealized foreign currency losses, less amortization	129.4	157.8
	other	58.1	46.4
		234.4	317.8
	Total assets	**$10,004.7**	**$ 9,228.8**
Liabilities and Shareholders' Equity			
Common shareholders' equity	Common shares	$ 1,479.0	$ 1,394.2
	Premium on capital stock	1,005.2	898.1
	Retained earnings	1,031.6	910.9
		3,515.8	3,203.2
Convertible preferred shares (redeemable)		258.2	345.7
Non-convertible preferred shares (redeemable)		103.4	108.4
Long term debt	Includes unrealized foreign currency losses of $167.9 ($183.1 – 1980)	3,783.2	3,540.4
Current liabilities		1,018.4	710.3
Deferred credits	Income taxes	1,193.5	1,061.1
	Other	132.2	259.7
		1,325.7	1,320.8
	Total liabilities and shareholders' equity	**$10,004.7**	**$ 9,228.8**

Summarized Statement of Changes in Financial Position Non-Consolidated (Note 1)

For the years ended December 31

Millions of dollars

		1981	1980	1979
Source of funds	Operations			
	Income before extraordinary item	$ 476.0	$ 365.9	$ 355.8
	Items not affecting funds			
	Depreciation	646.3	586.6	531.0
	Deferred income taxes	132.4	125.5	107.8
	Allowance for funds used during construction	(23.8)	(18.5)	(20.0)
	Other – net	(29.5)	(20.6)	(18.3)
	Total from operations	1,201.4	1,038.9	956.3
	Net proceeds from the sale of common shares of a subsidiary	–	–	34.6
	Proceeds from long term debt	346.9	487.4	238.7
	Issue of common shares			
	underwritten issue	–	–	194.1
	under the Dividend Reinvestment and Stock Purchase Plan	86.9	83.0	64.1
	under the Optional Stock Dividend Program	8.7	1.5	–
	upon conversion of convertible preferred shares	87.5	71.1	74.0
	Proceeds from issue of preferred shares	–	196.8	–
	Decrease in cash and temporary cash investments held for contract operations	47.1	–	42.3
	Miscellaneous	30.6	30.6	116.8
	Decrease in working capital	240.7	–	–
		$2,049.8	$1,909.3	$1,720.9
Disposition of funds	Capital expenditures			
	Gross capital expenditures	$1,401.5	$1,297.0	$1,116.7
	Deduct: charges not requiring funds	(9.9)	(13.7)	(11.7)
	Increase (decrease) in material and supplies	5.8	(19.4)	20.4
	Net expenditures	1,397.4	1,263.9	1,125.4
	Dividends	356.0	313.1	271.1
	Reduction of long term debt	94.6	71.5	105.4
	Acquisition of investments	21.9	23.8	106.5
	Conversion of preferred shares	87.5	71.1	74.0
	Increase in cash and temporary cash investments held for contract operations	–	16.9	–
	Miscellaneous	92.4	46.3	3.6
	Increase in working capital	–	102.7	34.9
		$2,049.8	$1,909.3	$1,720.9

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of operations

Net income

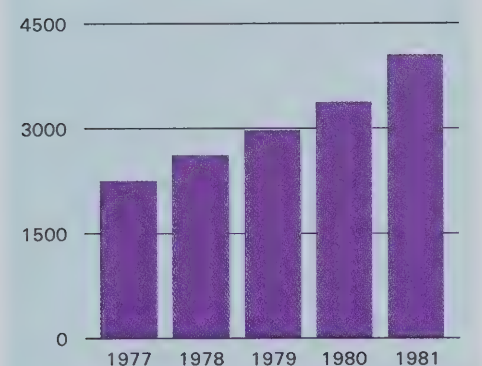
Consolidated income before extraordinary items was $550.7 million ($2.97 per common share) in 1981 compared with $363.7 million ($2.00 per share) and $433.2 million ($2.64 per share) in 1980 and 1979, respectively. The increase in 1981 is due to improved earnings in the telecommunications operations segment (principally due to rate awards granted Bell Canada) and the positive contribution of Northern Telecom Limited (Northern Telecom). The decline in 1980 as compared with 1979 resulted mainly from difficulties encountered in Northern Telecom's operations, particularly in the electronic office systems sector of its business.

Consolidated net income, after extraordinary items, was $559.4 million ($3.02 per share) in 1981. After taking into account the extraordinary loss of $90 million ($0.55 per common share) related to write-offs by Northern Telecom in 1980, Bell Canada's (Bell) 1980 consolidated net income was $273.7 million or $1.45 per common share.

Northern Telecom, 55.1 per cent owned by Bell at December 31, 1981, is Bell's largest subsidiary. Northern Telecom's contribution to consolidated income was $66.3 million and $64.8 million, respectively, in 1981 and 1979. After taking into account the increase in Bell's outstanding common shares, Northern Telecom's contribution per common share decreased from $0.42 in 1979 to $0.38 in 1981. In 1980, Northern Telecom incurred a loss which reduced Bell's consolidated income before extraordinary items by $11.9 million ($0.07 per common share).

The discussion of the results of operations, which follows, addresses Telecommunications operations, Manufacturing operations (carried out by Northern Telecom) and Contract and other operations separately, in parallel with the format of the consolidated income statement which appears on page 21.

Telecommunications operations — operating revenues
$ Millions (Consolidated)

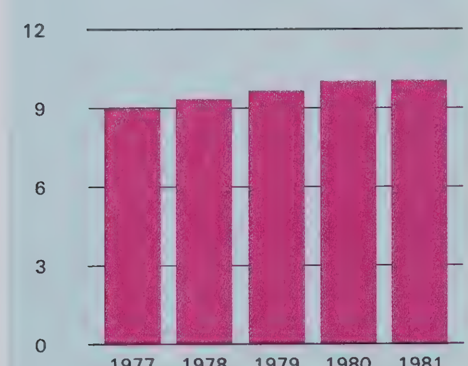


Telecommunications operations

Operating revenues increased by $668.9 million (19.9 per cent) during 1981, by $404.6 million (13.7 per cent) in 1980 and by $339.9 million (13.0 per cent) in 1979. The 1981 improvement includes $235 million attributable to the full year impact of an August, 1980 rate increase and $109 million from an October, 1981 rate increase. The increase in 1981 revenue was also attributable, but to a lesser extent, to growth in the demand for telecommunications services.

During 1981, 792.6 million long distance messages were handled, 7.0 per cent more than 1980; the corresponding increase for 1980 over 1979 was 7.8 per cent. At year-end, the total number of company-owned telephones in service (including extensions) was 10.1 million, 0.7 per cent more than 1980. The corresponding increase in 1980 over 1979 was 3.6 per cent. In 1981, the number of telephone extensions decreased from 3.7 million to 3.6 million (2.5 per cent) compared with an increase of 3.3 per cent, for the year 1980 over 1979.

Telephones in service
Millions (Consolidated)



The decline in extension telephones in 1981 is one of the consequences of an interim decision of the Canadian Radio-television and Telecommunications Commission (CRTC) in the third quarter of 1980, permitting subscribers to connect their own terminal equipment to Bell's facilities, other than the main telephone which must be provided by Bell. While some revenue losses have occurred, particularly in respect of business and residence auxiliary services and residence extensions, the interim decision has not yet had a material impact on Bell's financial results.

Operating expenses increased $445.3 million (17.8 per cent) in 1981 compared with $347.5 million (16.2 per cent) and $284.1 million (15.2 per cent) in 1980 and 1979, respectively. Slightly more than half of the increases were attributable to higher wages and other employee-related costs, due principally to increased wage rates. Depreciation charges, which represented approximately 14 per cent of the increase in operating expenses in 1981 and 17 per cent in 1980, increased primarily as a result of new capital investments in telecommunications equipment.

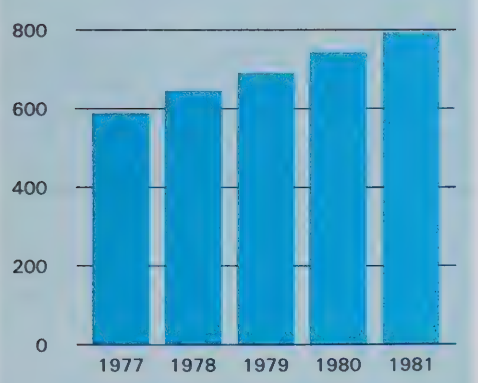
Results of operations (continued)

Manufacturing operations
Strong demand for Northern Telecom's digital switching and transmission systems and other telecommunications products contributed to a 25.4 per cent increase in total sales in 1981 to a record $2,531 million, compared with an increase of 8.3 per cent in 1980. These increases were mainly the result of volume growth rather than price increases.

Telecommunications equipment sales revenues rose 28.4 per cent to $2,248.5 million in 1981. The strongest performance was recorded by central office switching systems, up 53.6 per cent in 1981 to $776 million. Switching systems accounted for 34.5 per cent of telecommunications equipment revenues in 1981, compared with 28.8 per cent in 1980, and 25.7 per cent in 1979. The growth was due to increased shipments of Digital Multiplex System (DMS™). DMS revenues rose 93.7 per cent to $521 million in 1981, or 67.1 per cent of total central office switching revenues. This compares with $269 million in 1980 (53.2 per cent of the total), and $127 million (32.9 per cent of the total) in 1979.

Subscriber apparatus and business communications systems revenues were up 19.6 per cent to $739.9 million in 1981, compared with an increase of 17.9 per cent in 1980. The principal factor in this growth continued to be demand for the SL-1 digital business communications system. Transmission equipment revenues rose 47.3 per cent in 1981 to $409 million compared with an increase of 22.1 per cent in 1980. Wire, cable and outside plant product revenues at $323.6 million in 1981, were modestly down mainly the result of the phasing out of power cable operations in 1980 and early 1981.

Long distance messages
Millions (Consolidated)



Electronic office systems (EOS) revenues were up 5.9 per cent to $274.2 million in 1981, compared with a 26 per cent decrease in 1980. The 1980 decrease resulted primarily from a second quarter 1980 decision to discontinue the sales to third parties of equipment leased to customers, declining demand for older products and disruptions in the production of new systems and the refurbishing of equipment.

Gross profit in 1981 increased by 44.6 per cent to $727.7 million, compared with a decrease of 15.3 per cent in 1980. The increased gross profit in 1981 compared with 1980 reflects the impact of higher unit volumes as well as the improving profit margin on sales of DMS equipment. At year-end 1981, profit margins for DMS were still below the margins of Northern Telecom's other principal telecommunications equipment product lines, and also lower than the profit margins of earlier types of central office telephone switching systems. In 1980, gross profit was negatively affected by the high start-up costs for DMS as well as provisions and expenses incurred by the EOS business.

Net revenues – manufacturing operations were $187.4 million in 1981, $20.8 million in 1980 and $181.8 million in 1979. The recovery in 1981 from the depressed 1980 level was the result of the profitability of Northern Telecom's DMS switching systems, substantially reduced losses in electronic office systems, and solid performance in other product lines.

Contract and other operations
Operating revenues and operating expenses increased in 1981 mainly as the result of the acquisition of a subsidiary in the printing business in the third quarter of 1980. Approximately two-thirds of the increase in net revenues in 1981 was due to the Saudi Arabian contract which expires in December, 1982. It is hoped that it will be possible to negotiate an extension to the present contract for a further five years, although there is no assurance that this will be achieved.

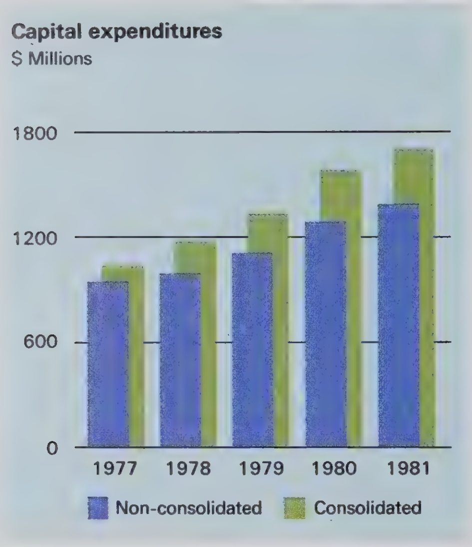
Extraordinary items
In 1981, an extraordinary gain of $8.7 million was realized, resulting from the sale by Northern Telecom of its shares in Intersil, Inc. In 1980, Bell recorded an extraordinary loss of $90 million as a result of Northern Telecom's write-offs, principally related to its EOS business.

Capital resources

Financing activities in Bell and Northern Telecom have been carried on independently and are discussed separately hereunder.

Bell Canada
The principal requirement for funds in Bell is to finance capital expenditures to meet both the demand for telecommunications services and for the improvement of such services. Capital expenditures totalled approximately $1,400 million in 1981 and $1,297 million in 1980. In order to finance these expenditures, it was necessary to supplement internally generated funds by obtaining new capital from external sources.

Bell continues to use both Canadian and international capital markets. During 1981 and 1980 external financing amounted to approximately $456 million and $784 million, respectively. Bell raised common equity, principally by means of the Shareholder Dividend Reinvestment and Stock Purchase Plan, in amounts of $104 million in 1981 and $93 million in 1980, and issued $200 million of convertible preferred shares in 1980. Debt financing in 1981 consisted of US $150 million of 10-year debentures issued in the United States and two medium-term issues in Switzerland amounting to SFr 250 million (equivalent to Can $166.5 million). Debt financing in 1980 consisted of $200 million of five-year debentures in Canada and US $200 million of 30-year debentures in the United States.



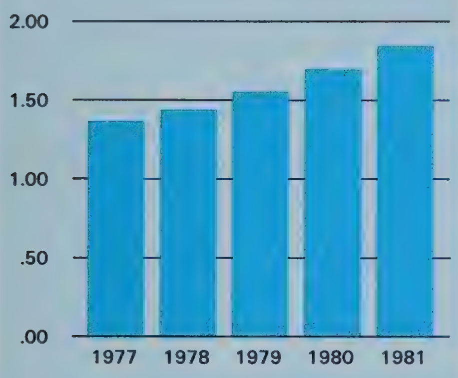
Based on Bell's current budget, it is estimated that its capital expenditure program in 1982 will amount to approximately $1,625 million, of which more than half is expected to be provided by internally generated funds. The remainder will be financed by the sale of debt and equity securities. In order to maintain a level of earnings sufficient to allow Bell to carry out its capital expenditure program through the internal generation of funds and external financing during a period of continuing high inflation, Bell will require further rate relief on a regular basis.

Northern Telecom
Capital expenditures of Northern Telecom amounted to $209.6 million in 1981, $225.6 million in 1980, and $173.5 million in 1979. In 1981, Northern Telecom and its consolidated subsidiaries raised a total of approximately $126 million, of debt and equity capital, compared with $149 million in 1980 and $283 million in 1979. Northern Telecom's capital spending in 1982 is expected to be approximately $255 million. It is expected the need for capital in 1982 will be met primarily from internally generated funds.

Market Price of Common Stock and Related Security Holder Matters

Dividends declared per common share

Dollars



	1981		1980	
	High	Low	High	Low
Price ranges of common shares				
1st quarter	$20	$18 1/2	$21 1/8	$17 5/8
2nd quarter	$19 1/2	$18	$21 1/8	$17 3/4
3rd quarter	$19 1/8	$16 7/8	$20 1/2	$18 1/2
4th quarter	$20	$17	$20 7/8	$18 3/8

The principal markets are the Montréal Stock Exchange and the Toronto Stock Exchange and the table shows market prices on those exchanges. The common shares are also listed on the Vancouver Stock Exchange in Canada and the New York Stock Exchange in the United States as well as the Stock Exchanges of Amsterdam, Basle, Brussels, Düsseldorf, Frankfurt am Main, Geneva, London, Paris and Zürich. High and low prices on the New York Stock Exchange (U.S. dollars) were $17 and $14 1/8, respectively, during the year ended December 31, 1981.

Quarterly dividends of $0.45 per common share were paid in 1981 ($0.41 – 1980).

On November 25, 1981, an increase in the dividend on common shares was declared. The final 1981 quarterly dividend, which was paid on January 15, 1982, was raised to $0.49 – an indicated annual rate of $1.96, an increase of $0.16 over the previous annual rate.

At February 16, 1982, there were approximately 273,000 registered holders of common shares.

Canadian taxes on foreign investors

Income taxes

Dividends and Interest on Bell Canada securities held by investors who are non-residents of Canada are subject to Canadian withholding tax, unless exempted. Interest on Bell Canada Series 1 notes, Series P bonds, Series 2 and Series DA through DK debentures and stock dividends paid pursuant to the Bell Canada Optional Stock Dividend Program are generally exempt from Canadian withholding tax. Unless reduced by treaty or specifically exempted, the statutory rate of Canadian withholding tax on dividends in respect of Bell Canada shares and on interest in respect of Bell Canada debt securities is 25 per cent. The corresponding rate for Bell Canada investors qualifying under the present United States-Canada Income Tax Convention and not having a "permanent establishment" in Canada is 15 per cent.

Gains on Disposals of Bell Canada securities by a non-resident of Canada are generally not subject to Canadian income tax unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and succession duties

There are no estate taxes or succession duties imposed by Canada or any Province of Canada with the exception of succession duties in the Province of Québec.
No Québec succession duties are payable in respect of the transmission, by reason of death of the holder, of Bell Canada securities situated outside Québec to a beneficiary who at the time of death is neither domiciled nor resident in such Province.

Board of Directors

Board of Directors

Marcel Bélanger, O.C., C.A.
Québec, Québec
President, Gagnon et Bélanger Inc.
Member since March 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Company Director
Member since May 1974

A. Jean de Grandpré, O.C., Q.C.
Outremont, Québec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Member since July 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board of
Canadian Reinsurance Company
and of Canadian Reassurance Company
Member since March 1970

H. Clifford Hatch
Windsor, Ontario
Chairman of the Board,
Hiram Walker Resources Ltd.
Member since April 1974

James W. Kerr
Toronto, Ontario
Consultant and Director,
TransCanada PipeLines Limited
Member since August 1970

Paul H. Leman, O.C.
Outremont, Québec
Company Director
Member since April 1976

Walter F. Light
Toronto, Ontario
President and Chief Executive Officer,
Northern Telecom Limited
Member since January 1980

Helen L. Margison
Toronto, Ontario
Company Director
Member since April 1978

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum
Member since April 1973

John H. Moore
Lambeth, Ontario
Chairman, Executive Committee
of the Board of Directors,
London Life Insurance Company
Member since March 1966

J. Dean Muncaster
Toronto, Ontario
President and Chief Executive Officer,
Canadian Tire Corporation, Limited
Member since April 1977

Gérard Plourde, O.C.
Montréal, Québec
Chairman of the Board, U A P Inc.
Member since January 1973

Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Executive Vice-President,
E.I. du Pont de Nemours and Company
Member since January 1978

John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Partner, Stikeman, Elliott,
Robarts & Bowman
Member since June 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Montréal, Québec
President and Chief Executive Officer,
Rolland inc.
Member since July 1965

James C. Thackray
Toronto, Ontario
President, Bell Canada
Member since April 1976

Orland Tropea
Pointe Claire, Québec
Vice-Chairman,
Bell Canada
Member since April 1980

Louise B. Vaillancourt
Outremont, Québec
President,
Fondation Armand-Frappier
Member since January 1975

Committees of the Board of Directors*

Executive Committee
A. J. de Grandpré–Chairman
J. W. Kerr
P. H. Leman
W. F. Light
J. H. Moore
G. Plourde
H. R. Robertson
J. C. Thackray

Audit Committee
M. Bélanger–Chairman
P. H. Leman
E. N. McKelvey
J. H. Moore
L. G. Rolland
L. B. Vaillancourt

Management Resources and Compensation Committee
J. W. Kerr–Chairman
M. Bélanger
G. A. Burton
J. D. Gibson
H. C. Hatch

Pension Fund Policy Committee
J. D. Muncaster–Chairman
G. A. Burton
J. D. Gibson
E. N. McKelvey
R. J. Richardson
J. P. Robarts

Social and Environmental Affairs Committee
L. B. Vaillancourt–Chairman
H. L. Margison
J. P. Robarts
H. R. Robertson
J. C. Thackray
O. Tropea

*as at December 31, 1981

Director, Officer changes

In June 1981, Douglas W. Delaney, formerly Vice-President (International) became Vice-President (Marketing), and Bruce H. Tavner was appointed Vice-President (International). Also in June, Harry Pilkington, formerly Vice-President (Marketing), became Vice-President (Special Assignment) and retired in January 1982 after serving the company for 35 years. On February 1, 1982, R. Douglas Sloane, formerly Vice-President (Operations Performance) went on loan to Trans-Canada Telephone System as President; P. André Aubin, formerly Vice-President (Customer Services) became Vice-President (Operations Performance) and Jean C. Monty was appointed Vice-President (Customer Services). There were no changes in the membership of the Board of Directors during 1981.

Officers*

Chairman	A. Jean de Grandpré, O.C., Q.C. Chairman of the Board and Chief Executive Officer			
President	James C. Thackray President			
Vice-Chairman and Executive Vice-Presidents	Orland Tropea Vice-Chairman	J. V. Raymond Cyr Executive Vice-President Administration Frederick E. Ibey Executive Vice-President Ontario Region	Gordon E. Inns Executive Vice-President Marketing Léonce Montambault Executive Vice-President Québec Region	
Vice-Presidents	P. André Aubin** Vice-President Customer Services, Québec Region J. Robert Brûlé Vice-President Operations Development, Québec Region Robert W. Crowley Vice-President Customer Services, Ontario Region Donald J. Cruickshank Vice-President Public and Environmental Affairs Douglas W. Delaney Vice-President Marketing, Ontario Region	Claude Duhamel Vice-President Administration, Québec Region John H. Farrell Vice-President Computer Communications George L. Henthorn Vice-President & Comptroller W. Brian Hewat Vice-President Marketing and Development Robert Kearney Vice-President Systems John A. McCutcheon Vice-President Personnel	Andrew M. McMahon Vice-President Engineering Harry Pilkington** Vice-President Special Assignment, Ontario Region Hubert A. Roth Vice-President Network Services, Ontario Region Claude St-Onge Vice-President Network Services, Québec Region Ernest E. Saunders, Q.C. Vice-President Law and Corporate Affairs	John E. Sinclair Vice-President Regulatory Matters R. Douglas Sloane** Vice-President Operations Performance J. Stuart Spalding Vice-President & Treasurer John F. Stinson Vice-President Operations Development, Ontario Region Bruce H. Tavner Vice-President International Robert N. Washburn Vice-President Administration, Ontario Region
Corporate Secretary	Guy Houle Corporate Secretary			

*as at December 31, 1981
**see Director, Officer changes on previous page

Selected Financial and Other Data

	1981	1980	1979	1978	1977
Consolidated					
Income statement data (millions of dollars)					
Telecommunications operations – operating revenues	$ 4,035.1	$ 3,366.2	$ 2,961.6	$ 2,621.7	$ 2,241.7
Manufacturing operations – sales	2,531.0	2,018.5	1,864.1	1,470.0	1,194.7
Contract and other operations – operating revenues	823.8	652.3	439.0	282.6	76.7
Total revenues	7,389.9	6,037.0	5,264.7	4,374.3	3,513.1
Income before extraordinary items	550.7	363.7	433.2	370.6	286.2
Net income	559.4	273.7	433.2	395.1	288.5
Balance sheet data (millions of dollars)					
Total assets*	$12,452.0	$11,449.0	$10,376.5	$ 9,205.3	$ 7,342.9
Common equity*	3,859.3	3,463.3	3,342.1	2,840.4	2,519.0
Convertible preferred shares* (redeemable)	258.2	345.7	216.7	290.7	241.6
Non-convertible preferred shares* (redeemable)	103.4	108.4	112.3	114.0	114.9
Minority interest*	447.2	391.9	467.7	296.7	184.8
Long term debt* (including current portion)	4,729.3	4,405.9	3,816.3	3,536.3	2,821.3
Capital expenditures	1,713.9	1,598.2	1,351.0	1,184.0	1,045.7
Common share data					
Earnings per common share					
before extraordinary items**	$ 2.97	$ 2.00	$ 2.64	$ 2.49	$ 1.99
after extraordinary items	$ 3.02	$ 1.45	$ 2.64	$ 2.67	$ 2.01
Dividends declared per common share	$ 1.84	$ 1.68	$ 1.55	$ 1.43	$ 1.36
Equity per common share*	$ 21.74	$ 20.70	$ 21.09	$ 20.12	$ 19.19
Percent of common shares held in Canada*	96.1	96.1	95.6	94.3	93.9
Number of shareholders* (including preferred)	271,478	272,081	250,172	228,285	221,224
Other statistics					
Telephones in service* (thousands)	10,062.5	9,988.0	9,642.0	9,328.4	8,982.2
Long distance messages (millions)	792.6	741.0	687.4	643.2	587.6
Non-consolidated					
Income statement data (millions of dollars)					
Telecommunications operations – operating revenues	$ 3,845.1	$ 3,203.1	$ 2,817.1	$ 2,497.4	$ 2,133.4
Contract operations – operating revenues	493.2	453.6	319.8	185.6	–
Total revenues	4,338.3	3,656.7	3,136.9	2,683.0	2,133.4
Income before extraordinary item	476.0	365.9	355.8	300.8	232.9
Net income	476.0	365.9	385.6	304.9	232.9
Balance sheet data (millions of dollars)					
Investments*	$ 460.9	$ 439.3	$ 417.6	$ 320.7	$ 320.4
Total assets*	10,004.7	9,228.8	8,380.1	7,713.2	6,485.9
Long term debt* (including current portion)	3,877.6	3,596.9	3,187.5	3,080.7	2,632.6
Capital expenditures	1,401.5	1,297.0	1,116.7	1,003.7	951.1
Common share data					
Earnings per common share					
before extraordinary item	$ 2.54	$ 2.01	$ 2.13	$ 1.96	$ 1.58
after extraordinary item	$ 2.54	$ 2.01	$ 2.32	$ 1.99	$ 1.58
Equity per common share*	$ 19.81	$ 19.15	$ 18.87	$ 17.96	$ 17.55
Financial ratios					
Percent return on total capital	10.9	9.5	9.7	9.3	8.4
Percent return on common equity	13.1	10.6	11.5	11.1	9.0
Interest as a percent of total average debt	9.0	8.5	8.1	7.9	7.8
Debt as a percent of total capital*	50.2	49.6	49.2	51.5	50.4
Times interest charges earned	3.6	3.4	3.5	3.4	3.0
Other statistics					
Telephones in service* (thousands)	9,609.4	9,548.1	9,221.8	8,945.4	8,620.2
Local conversations (millions)	13,199.9	12,409.9	11,974.2	11,717.1	11,522.4
Long distance messages (millions)	747.9	699.3	649.9	610.5	557.2
Number of employees*	58,659	57,267	56,128	53,328	50,350
Salary and wage payments (millions of dollars)	$ 1,396.3	$ 1,205.4	$ 1,014.4	$ 868.1	$ 756.3

*At December 31

**Including earnings (loss) per common share from discontinued operations of $(.01) in 1978 and $.01 in 1977.

Corporate Information

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

Bonds and debentures issued in Canada only:

The Royal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Bonds issued in the United States only:

The Royal Trust Company
Montréal

Debentures issued in the United States only:

The Royal Trust Company
Montréal

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Transfer Offices for Stock

Canada:

Company Offices
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Outside Canada—Common shares only:

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

The Royal Trust Company
London, England

Registrar for Stock

Canada:

Montreal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Outside Canada—Common shares only:

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Williams & Glyn's Registrars Limited
London, England

Listing of Stock

Canada:

Montréal, Toronto, Vancouver
Stock Exchanges

Outside Canada—Common shares only:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf
Stock Exchanges

Switzerland
Zürich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

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